BUDGET 1986

Province of British Columbia

The Honourable Hugh Curtis, M.L.A.
Minister of Finance

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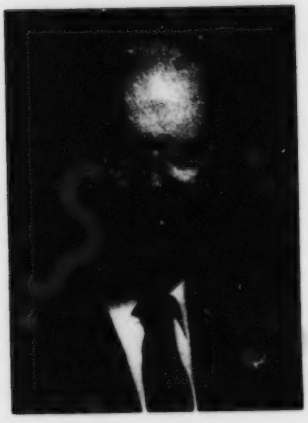

Delivered
in the Legislative Assembly
Thursday, March 20, 1986
by the
Honourable Hugh Curtis,
Minister of Finance

"At a time when other governments in Canada are forced to retrench by cutting programs and increasing taxes, our vital programs are secure and our taxes are being reduced."

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I. INTRODUCTION

Mr. Speaker, I am honoured to present the 1986/87 provincial budget.

As this Social Credit administration enters its second decade in office, we can look back with pride on our accomplishments during a turbulent and difficult period in the world economy. Through decisive actions over the past four years, we have put in place a strategy to move British Columbia forward with confidence toward the challenges of the twenty-first century.

We have chosen to build a strong economic structure, that will stand the test of time. It has taken patience and hard work, and at first some questioned our approach. We built a solid foundation by getting our financial affairs in order at a time when the deficits of other governments were galloping out of control. At the same time we began the critical process of bringing down the cost of doing business and providing public services, to restore the competitive position of our economy. Last year, we established the basic structure of economic renewal with a major tax reform and important public investments.

Just over one year ago, I presented to the Legislative Assembly a comprehensive set of initiatives, including:

- major tax cuts to make business more competitive, and important tax incentives to stimulate new investment;
- industrial development programs to assist new and expanding businesses; and,
- investments in the natural resource base and in major construction projects to provide jobs now and in the future.

In the months that followed, we added more elements to the economic renewal program — the *Provincial-Municipal Partnership Act*, special industrial electricity discounts, the Commissioner of Critical Industries, the public sector purchasing policy, the *Special Enterprise Zone and Tax Relief Act*, among others. Our program has helped British Columbia join the ranks of the leaders in the worldwide race for new investment and jobs.

Today I shall announce further measures to strengthen and diversify the provincial economy, building on the framework created last year. I shall focus particularly on one element needed to make our structure strong and secure: people; skilled, educated, adaptable people; optimistic and healthy people. To this end, I can announce today new multi-year funding packages for health and education. These will not only provide additional funding, but will also tap the energy and creativity of our educators and those who provide our health care services, to assist in determining priorities.

We believe this year of Expo 86 represents for British Columbians not only the successful culmination of many years of planning and hard work but also the beginning of a new period of growth and prosperity, an era marked by an expanded world role for this province. The talent and initiative of our people, supported by dynamic and creative government policy, will, I believe, give us the future we all seek.

II. ECONOMIC ENVIRONMENT

The economic environment remains challenging. In 1985 we faced highly competitive international markets, generally declining commodity prices, moderate worldwide economic growth and a very modest increase in the value of international trade — the same challenges we have faced since the international recession of 1981-82. Despite tough competition, 1985 saw the strongest economic performance since that recession began.

It is encouraging to see that our ability to meet and overcome these challenges is growing. We witnessed in the last year excellent cooperation among all groups in our economy: employers, workers, municipalities and the provincial government. This unprecedented spirit of partnership was demonstrated in many ways:

- Employers and workers are co-operating by entering into flexible compensation packages that are responsive to market conditions. These agreements place a higher value on preserving employment and improving output than on propping up outdated work practices.

- To date, 111 municipalities have entered into partnership agreements with the provincial government and many more are pending. Municipal property tax reductions, accompanied by provincial government assistance, have been granted to industrial firms throughout the province. These actions have already created many new jobs.

- The Commissioner of Critical Industries, in only 11 months, has saved or restored at least 1,500 jobs by bringing people together. Mines, sawmills and plywood plants that would otherwise have gone out of business are operating successfully. Plants threatened with closure have been kept running, and closed operations re-opened by showing people ways in which to cooperate. Concessions have been made by all concerned: employees have given up wage increases, often in exchange for a share of profits; municipalities and the provincial government have foregone property taxes; financial institutions have deferred loan repayments and reduced interest charges; and British Columbia Hydro has lowered electricity rates.

The Commissioner's efforts have paid off not only in jobs but also in output. In addition to the 1,500 people who are working today in communities all over the province, these plants are doing over $200 million in business annually, and their continued operation will contribute over $10 million per year to provincial revenues. None of this would have happened without cooperation and flexibility.

This flexibility is essential if we are to improve our standard of living in a world economy subject to rapid change. This province has undergone a permanent transformation over the last four years. Our export industries have succeeded in adapting to tougher world markets by boosting productivity and lowering costs.

But success must not be taken for granted. We must continue to adapt if we want to maintain and further advance our competitive position.

There are also some favourable signs beyond our borders. Last year, after several years of unprecedented strength, the United States dollar, and with it the Canadian dollar, began a sharp decline against the Japanese and Western European currencies. This foreign exchange correction has markedly improved the competitive position of British Columbia producers in overseas markets. In Japan, our most important offshore market, the increase in the foreign currency value of the yen has reduced the effective cost of our commodity exports more than 30 per cent in the two years up to February 1986.

Another favourable sign is the growing interest among Canadians in removing international trade barriers. This province shipped international exports worth approximately $12 billion in 1985, directly supporting hundreds of thousands of jobs. We have much to gain from trade liberalization and much to lose if protectionist attitudes prevail and trade barriers are erected.

British Columbia's position on trade negotiations is clear. We favour multilateral negotiations, to address the new types of barriers and new trade issues that have arisen since the last round of talks under the General Agreement on Tariffs and Trade. We also support the federal initiative to negotiate a bilateral trade agreement with the United States, to secure access to Canada's largest foreign market.

The two goals are not inconsistent. It is reasonable and appropriate, within the context of the General Agreement on Tariffs and Trade, to have a special agreement covering Canada-United States trade, the largest international trading relationship in the world. Many issues arise in such an intensive relationship that are too complex or too specific to be dealt with effectively in multilateral talks. Our other trading partners, who collectively take more of British Columbia's products than the United States, may rest assured that a Canada-United States agreement will not reduce our commitment to multilateral talks or overseas trade.

Trade negotiations are always difficult. Canada's negotiators must take a strong position and represent all regions. While the federal government must speak for Canada, provincial participation is essential to reflect regional interests and to ensure comment on matters under provincial jurisdiction. British Columbia will seek security of access for our lumber and other resource products, as well as greater opportunities to sell our newer products, such as electronic equipment. We shall also look for reduced barriers to trade in services, such as engineering and business consulting, which have the potential to grow rapidly and create thousands of high-quality jobs for British Columbians.

Finally, while we are committed to more open trade, we recognize that some sectors of our economy may find it difficult to adjust to a more open trading environment. We shall be working with Ottawa to develop appropriate measures to assist those affected during the adjustment period.

I should also offer cautions concerning several threats to our improving prospects.

First, international financial markets continue to be volatile due to large imbalances in international payments and the massive debt loads of many less-developed countries. The resulting gyrations in interest and exchange rates could inhibit investment and disrupt our export markets.

Second, the recent sharp decline in oil prices, while welcome in many respects, could be disruptive. Reasonable stability in price and supply of this vital commodity is essential to the industrial world. Continued weakness in oil prices could negatively affect markets for other energy sources, including natural gas, electricity and coal.

Third, we remain concerned about the size of the federal deficit and the measures taken to bring it under control. The massive tax increases announced in the May 1985 and February 1986 budgets will slow the growth of the national economy, increase the inflation rate and damage the competitive position of our producers.

Let me be clear. We recognize the federal deficit as a national problem, the result of fifteen or twenty years of fiscal mismanagement, and we have agreed to cooperate in bringing it down. Accordingly, we have accepted the recently-imposed reduction in the rate of increase of federal contributions for health and post-secondary education. Having put our own house in order, we are able to accept funding limitations and still increase our own spending on these programs.

We have also offered to work with the federal government to eliminate duplication of activities between the two levels of government and to identify areas where we can work jointly to reduce the cost of providing public services. It is my hope that the federal government will rely increasingly on these and other cost reduction measures, rather than tax increases, to bring down its deficit. Make no mistake, if the current federal government does not succeed, the future impact on all taxpayers and the threat to social services will be far greater than the burden of current federal tax increases and expenditure limitations.

III. ECONOMIC PERFORMANCE AND OUTLOOK

I now wish to speak briefly about British Columbia's economic performance during the past year and the outlook for 1986.

In 1985 the provincial economy experienced its best year since 1981, with estimated real growth of three per cent.

Improved performance in British Columbia, and Canada, was achieved despite weaker growth experienced by our major trading partners. The United States economy grew only 2.3 per cent in 1985, well below the rate of the previous year. In the industrial world as a whole, economic growth slowed to less than 3 per cent from 5 per cent the year before. This slowdown contributed to weaker markets for our natural resource products. Canadian dollar prices of our major commodity exports fell an average 2.8 per cent for the year.

Despite the lower prices, British Columbia's sales volumes were high and the total value of commodity exports appears to have increased slightly. Cost control, higher productivity and lower taxes have enabled the mining and forest industries to retain their markets in the face of a general worldwide oversupply.

The lumber industry is a good example of how exporters coped. Although prices for lumber in 1985 were 5 per cent higher than in 1984, they were still considerably below the levels of 1983. The industry has overcome the burden of the price decline over the last two years through greater productivity, increasing its production volume by more than 7 per cent.

Several of our major commodities experienced export price declines in 1985, with wood pulp down by 16 per cent, natural gas 16 per cent and coal 4 per cent. Some other commodity prices improved last year. In addition to the small increase for lumber, which I have noted, copper recorded an increase in price of 9 per cent, following several years of low prices, and newsprint rose by 10 per cent.

The brightest spot in our exports during 1985 was the demand for electricity. British Columbia Hydro earned $283 million from these exports to the United States last year, compared to $123 million in 1984.

Several indicators demonstrate the growing confidence among consumers in British Columbia. Retail sales increased 8.8 per cent in 1985 and personal income approximately 6 per cent. Housing starts rose by 11.1 per cent to almost 18,000 units.

Employment is also on a steady uptrend. Last year there was an average increase of 26,000 jobs in the province, equal to growth of 2.2 per cent in employment. Although moderate by comparison with the 1960s and 70s, this was the largest increase in employment since 1981. Job creation has continued into 1986 and in February there were 50,000 more people at work in the province than one year earlier, an increase of more than four per cent. The unemployment rate in February was down a full two per cent from last year.

Despite this good news, we are not satisfied. Creating more jobs remains our number one priority, but there are no shortcuts, either through handouts or make-work programs. The only permanent way to increase employment is through investment: investment in people, by offering them the opportunity to acquire the training and skills needed in a complex and dynamic society, and investment in productive plant and equipment.

The financial position of our natural resource industries remains much weaker than it was five years ago, and current commodity prices are too low to justify significant expansions. Nevertheless, investment is now more diverse and the outlook has been improving, reflecting the success of our

multi-year program to strengthen British Columbia's economy through cost containment, tax reductions, incentives, and key public investments in resources and infrastructure. As the benefits of past initiatives gather momentum, and as the initiatives I shall propose today take effect, 1986 will see further increases in both business investment and housing construction.

In recent months there has been renewed optimism about the economic prospects for Canada. Most forecasters now predict that, despite federal budgetary measures, economic growth will remain relatively strong for the next few years and that inflation will remain low.

British Columbia's economic growth is expected to increase again in 1986 to the highest level in five years. There are many reasons to expect this performance:

- The economies of the United States and Western Europe are forecast to improve, and growth in Japan should decline only slightly. Increased activity among these major trading partners will raise demand for our products.
- The decline of the Canadian dollar against the currencies of those countries will aid our competitive position.
- Indicators for retail sales, housing starts and manufacturing shipments show well-established uptrends.
- Measures taken by the government over the last three years to strengthen the long-term competitiveness of our producers are having a significant positive effect.
- Inflation in British Columbia is expected to remain at a low level.
- Expo 86, and the millions of visitors it will draw to British Columbia, will provide a major stimulus in 1986 and firmly establish our province as a desirable location for tourism and investment in the years ahead.

We expect the rate of growth in provincial gross domestic product to be 4 per cent in 1986. Employment is expected to increase by 3.4 per cent, or an average of 42,000 new jobs, significantly more than in 1985. This should result in a further decline in our average unemployment rate to 12.9 per cent from 14.2 per cent in 1985, despite an expected increase in the province's labour force as people respond to employment opportunities connected with Expo 86 and a generally expanding economy.

Although there was a small net outflow of people to other provinces in 1985, British Columbia's population continued to grow. Between 1983 and 1985, our population increased by more than the overall increase in the other three western provinces combined. This growth will be compounded by renewed in-migration in 1986 and future years, adding more people to the labour force, and making growth and job creation all the more essential.

IV. FISCAL PLAN

The cornerstone of the government's fiscal policy over the past four years has been the effort to provide affordable government and avoid imposing major tax increases on our people. The major structural shift in commodities markets which accompanied the 1981-82 recession caused a sharp downturn in provincial government revenue, creating a threatening deficit and requiring urgent corrective action.

We had two choices — cut spending or raise taxes. The wiser course, restraining spending, was the one we chose. After rising above $1 billion in 1983/84, the deficit has been reduced in each of the following two years and the trend downward will continue in 1986/87.

Our actions have been designed to ease the transition from the inflationary boom conditions of the late 1970s to the stable, even deflationary, conditions of today.

The Record

Let me review the record. Members will recall that we acted swiftly and decisively with the introduction of a comprehensive restraint in government program in February 1982. With the clear support of the people of British Columbia we carried this process of reducing the size and scope of government through 1983 and 1984.

Our plan was straightforward: stringent control of spending to reduce waste and increase efficiency, modest increases in a few taxes and fees, limits on program expansion, elimination or scaling down of many non-essential programs, reduction in staffing levels, and control of public sector wages and salaries. This stabilization program was opposed by some — especially those special interest groups who refused to recognize that the public sector could not expand indefinitely while others were bearing the brunt of the world recession. Fortunately, most British Columbians recognized the need to build this foundation for recovery.

Cost control was balanced by investment in key public projects, such as Expo 86, SkyTrain, the Annacis crossing, the Coquihalla highway and smaller highway and social service projects throughout the province. These investments provided jobs to carry us through the most difficult part of the economic cycle and created valuable public facilities which will serve individuals and businesses in the province for many years.

Last year the benefits of fiscal discipline were translated into a major tax reform, which will reduce business costs by almost one billion dollars over three years. In this, the second year of the program, taxes on business in the province will decline by more than $350 million from the level that would have prevailed without tax reform.

These efforts also permitted us to introduce a broad range of other business incentives as well as new investments in our basic resources and public facilities. Our economic renewal initiatives provide stimulus now and will pay handsome dividends for years to come. As a result, the jobs of British Columbians now working are more secure and the employment prospects of those not yet working are substantially brighter.

For the future, we remain committed to the goal of reducing and eliminating the deficit. This year's expenditure initiatives, as well as the continuing highway expansion program and a second year of tax reductions, can be accommodated within the framework of continuing deficit reduction. At a time when other governments in Canada are forced to retrench by cutting programs and increasing taxes, our vital programs are secure and our taxes are being reduced. This would not have been possible without the solid fiscal foundation we began building four years ago.

We have also helped both individuals and industry by stabilizing or reducing the cost of services provided by government agencies, and any increases in charges over the next few years will be generally below the rate of inflation.

For example, the Insurance Corporation of British Columbia this year reduced automobile insurance rates for most British Columbia residents and businesses by an average of six per cent. Electricity rates charged by British Columbia Hydro will be stabilized this year, and increases over the next few years should be below the general rate of inflation.

The Workers' Compensation Board has lowered the assessment rates charged to most employers. At the same time, benefits for injured workers have increased, as a result of automatic indexation — not matched in most other provinces. Most strikingly, this has been achieved during a period in which the Board has almost eliminated its unfunded liability. Only two years ago this shortfall exceeded $500 million and threatened the financial stability of the Board. Over the next few years we expect that the Board will be able to further reduce employer assessments while continuing to index benefits to inflation and raise the maximum benefit level.

The British Columbia Ferry Corporation was able to hold its major fares unchanged for this year and will provide more frequent service on main routes to accommodate visitors to Expo 86.

The British Columbia Railway Company is also operating successfully and reported record profits of $42 million in 1985, following the excellent results of 1984. The volume of freight carried by the Railway in 1985 was the highest in its history. The new Tumbler Ridge line to the northeast coalfields is now a major contributor to the Railway's results, generating revenue sufficient to meet all direct costs incurred on the line and to make a contribution to the Railway's operating profit.

Last year we concluded that the Railway could operate profitably on a commercial basis and removed its historic exemption from sales tax, increasing government revenues an estimated $12 million annually. The Board of Directors is confident that the Railway can continue to operate profitably over the medium-term, and has therefore decided to pay an annual dividend to the shareholders — the people of the province. We expect the first dividend, amounting to approximately $10 million, to be paid to the government within the next month or two.

The Outlook

Let me turn now to the fiscal outlook for the year just ending and the new year beginning next month.

The deficit for the current year, 1985/86, is now forecast at $948 million, $58 million more than originally budgeted but $46 million below the level of the previous year. The increase from the original budget was caused mainly by higher spending for forest fire suppression and additional authorized spending on highway capital construction, as we accelerated projects originally planned for next year in order to create additional employment. These pressures were partly offset by significant savings in interest costs achieved by borrowing later in the year than originally expected. In addition, expenditures under the Economic and Regional Development Agreement were lower because subsidiary agreements with the federal government were concluded later than expected.

In setting budgetary policy for next year I had five goals:

- First, continuation of the economic renewal program begun last year, in order to strengthen our economic base and make British Columbia more competitive in attracting investment and jobs.
- Second, maintenance of essential social programs.
- Third, provision for new programs to meet education and training needs as our economy evolves, and to enhance health care services.
- Fourth, further reduction in the deficit to limit the annual debt service charges, whose growth threatens to take taxpayers' money away from public services.
- Fifth, maintenance of our low tax burden and further reductions where possible.

Designing a budget to meet all of these goals was challenging. Although economic growth will provide a boost, three major factors will curtail growth in the government's revenue next year.

First, we must accommodate the second-year impact of last year's tax reform. This will reduce revenue by a further $104 million in 1986/87. These tax cuts also require a provincial government expenditure of $85 million in 1986/87 to compensate school districts for foregone property tax revenues. These impacts are, of course, on top of the $165 million in tax cuts carried forward from last year.

Second, the decline in oil prices will have a severe impact on government revenue. Oil and natural gas royalties, bonus bids for Crown exploration rights and motor fuel taxes will drop by almost $50 million from this year's level. I am confident that, in time, lower oil prices will stimulate economic

growth, increase world trade and raise demand for our other commodity exports. Although this will eventually generate additional government revenue, the immediate revenue shortfall must be accommodated in our budget plan.

Third, as I mentioned earlier, the federal government has amended the Established Programs Financing formula, under which contributions are made to the provinces for health and post-secondary education. A reduction in the annual escalation factor by two percentage points will cost British Columbia $36 million in 1986/87 and an estimated $650 million over the next five years. Since we intend to maintain and enhance our health and post-secondary education programs, we shall have to find offsetting funds within our budget.

The provincial government's revenue for 1986/87 is estimated at $8.768 billion, an increase of 7.3 per cent over the revised forecast for 1985/86.

The expenditure budget maintains the basic funding levels for most government programs and provides major new allocations for education and health care. Highway spending will continue at a high level and forestry funding will be increased to provide jobs now and in the future. Total expenditure for 1986/87 is budgeted at $9.643 billion, an increase of 5.7 per cent over the revised forecast for 1985/86.

The deficit is forecast to decline again in 1986/87, to $875 million.

This will be the third consecutive reduction in the deficit, marking another step toward our goal of a balanced budget. And I reiterate that a lower deficit has been achieved despite the impact of tax reductions and new expenditure initiatives amounting to approximately $500 million in 1986/87.

One measure of our success is the reduction in the deficit from 2.2 per cent of gross domestic product in 1982/83 to an estimated 1.5 per cent in the coming year, a dramatic decline in the deficit burden on our economy.

Let me assure the House, however, that our satisfaction with this achievement does not mean we are complacent. Although the deficit is declining, we shall have to borrow $800 million for government purposes next year, increasing the debt to over $4 billion. Interest payments on this debt are estimated at $448 million, equal to 4.6 per cent of our expenditure. As the economy continues to strengthen, we must work diligently to eliminate this burden on our taxpayers.

The rate of growth of indirect debt has also been reduced. We expect the outstanding debt of Crown corporations and agencies to show an increase of just over one per cent at the end of the current fiscal year, compared to one year ago. By the end of next year, this debt is forecast to decline from current levels.

Our total outstanding debt, both direct and guaranteed, is also forecast to decline as a percentage of provincial gross domestic product, in both this fiscal year and next.

As part of the effort to control and reduce debt-servicing costs, I shall continue to look for innovative and prudent financing methods. In the past, these have included arrangements for the sale and leaseback of Crown corporation assets. We enter into these arrangements only if they provide lower financing costs than the alternatives available. Our goal has been, and continues to be, lower costs for the taxpayer.

The Compensation Stabilization Program

The Compensation Stabilization Program, now entering its fifth year, has been a major element in controlling expenditure. Almost 3,000 collective agreements have been negotiated under the guidelines. Not once has there been a need to resort to the compulsory regulations. Wage and benefit increases in the public sector have been brought down to reasonable levels, closely following those in the private sector. In 1985 there was a difference of only one-tenth of one per cent between public and private sector settlements in this province, demonstrating the equity we have been able to achieve.

Last week, the Executive Council approved amendments to the Program that will broaden the settlement criteria and increase the flexibility for parties negotiating collective agreements in the public sector. A new job security guideline has been added to give employers and employees the option of accepting fixed rates of increase in compensation and having the Commissioner approve an employment plan to provide job security for the employees.

In addition, the existing guideline, now called the Labour Market Guideline, has been broadened. To the existing criteria of productivity increases and public sector settlement patterns, we have added three new factors which may be taken into account in determining whether a compensation plan complies with the guideline. These are: private sector settlement patterns; competition in recruiting employees with critical skills; and the rectification over time of disparities in compensation levels.

Legislative amendments introduced last week empower the Commissioner to approve an interim compensation plan when there are final details or elements yet to be determined. The application of the guidelines has also been clarified in cases where job classification systems are altered.

It must be clear that the paramount consideration in the guidelines remains the employer's ability to pay. Let me also emphasize that the government intends to use any additional funding available to improve public services and create jobs, not to increase compensation for those already employed.

Last week's amendments will increase the flexibility of a program which is already highly flexible and the most successful of its type ever developed in Canada. Through this innovative program, British Columbia has found a way to maintain much broader collective bargaining rights in the public sector than in many other provinces, while ensuring the fiscal discipline necessary to protect our public services and the taxpayer.

V. ECONOMIC DEVELOPMENT INITIATIVES

The world knows British Columbia as a great storehouse of natural resources. Our forests, mines, farmlands and marine resources have always been the main sources of wealth for our citizens. In recent years we have taken steps to diversify our economy and reduce our reliance on these resources. Some have argued that we should go further, even suggesting that forestry and mining are sunset industries, unlikely to contribute to our long-term prosperity.

Let me make our view clear. As British Columbia's population grows and as we approach the limits of the resource base, we shall have to find new sources of wealth. But I emphasize that our basic resource industries will be the backbone of the provincial economy for years to come, and will always be particularly important in the non-metropolitan areas of our province.

Resource Industries

The decade of the 1980s has been difficult for regions of the world dependent on resource industries. The impacts in British Columbia were all too evident — jobs lost, plants closed, incomes fallen, and communities and families shaken. This period of adjustment has meant very real difficulty for many British Columbians. Fortunately, we have turned the corner. While some resource-dependent regions still have adjustments ahead of them, markets for most of our resource products appear to have stabilized and there are signs of an upswing.

Last year we moved to assist the resource industries by making major tax reductions, freezing water rental rates, introducing special electricity discounts and appointing the Commissioner of Critical Industries. These actions have helped already and will help even more in years to come. Most resource companies stopped losing money in 1985 and moved into modest profit positions.

Nevertheless, to ensure that the resource industries continue to provide jobs in the future, we need to invest more now in the resource base itself.

Last May this government signed with Ottawa a $300 million, five-year Forest Resource Development Agreement, which will provide for a major investment in the forest base. A prime goal will be to restore large areas of logged land that have not been adequately replanted. We have made a clear commitment to replant those lands for the benefit of future generations of British Columbians. This year we shall do even more.

The base budget of the Ministry of Forests for 1986/87 will be increased by $57.8 million, or 21.5 per cent, to accommodate the forest agreement and also to provide full funding for the ministry's five year Forest and Range Resource program.

We are aiming to plant 200 million seedlings per year by 1987/88. That is enough seedlings each year to cover 162,000 hectares with productive forest. And it is 2.7 times the rate of planting in 1975/76, a huge increase that clearly demonstrates the commitment we are making to our most important natural resource.

To protect our reforestation investment, my colleague, the Minister of Forests, will shortly present legislation to establish a special Forest Stand Management Fund. Now that we are on the road to our goal of 200 million seedlings per year, we must increase emphasis on managing the young forests to ensure that they grow rapidly into marketable timber. Weeding and thinning of replanted areas, and other silviculture treatments, are essential to getting the maximum return on our investment in reforestation.

The government will commit $20 million to the Forest Stand Management Fund for this purpose and my colleague will seek matching contributions of $20 million each from the federal government, and the industry, and $5 million each from municipalities and the forest sector trade unions. All of these parties have a strong interest in making this investment to help ensure the future of the forest industry and the livelihood of the communities that depend on the forests. The Minister will propose to the industry that its contribution to the Fund be provided through a special silviculture levy.

Minerals are currently selling at low price levels but they will be in greater demand in the future. To ensure that mining remains a vital part of our industrial structure, the government will provide $5 million to encourage mineral exploration and development. The design of specific programs will be the subject of consultation between the Minister of Energy, Mines and Petroleum Resources and mining industry representatives. These funds are in addition to the $2.35 million allocated in 1986/87 for the Canada/British Columbia Mineral Development Subsidiary Agreement.

As mentioned earlier, British Columbia Hydro earned $283 million last year through electricity exports to the United States. Potential sales, especially in California, are even greater. A major boost could come with the proposed pre-building of the Site C development on the Peace River. By advancing construction and selling the resulting power under contract to California utilities, we can accelerate creation of 2,000 jobs and help to pay for the project, which we will need soon in any case to meet our own needs.

I stress that, before starting any construction, we shall require firm, long-term export contracts. The sale price must provide an adequate return to the people of British Columbia. We are eager to proceed with the project in order to provide jobs, especially to those who have a lifetime of experience in designing and building dams for this province. Nevertheless, we shall not be rushed into an agreement. The general interests of all British Columbians must remain paramount.

Diversification

With a broad range of measures in place to strengthen our basic resource industries, we can now turn more attention to economic diversification. New industries are needed to create jobs for our growing work force. But if we wish to broaden our economy, we must be alert to our own natural advantages and to opportunities presented by the world economy. And we must have policies and programs ready to prepare our people and businesses for new challenges.

We have identified several key areas in which British Columbia can expand and be competitive internationally.

Tourism is already our number two industry, and it will blossom with Expo 86. Our province offers scenic beauty, great recreational opportunities, exciting communities and vibrant cultural resources — a combination rarely matched. This year we have a once-in-a-lifetime chance to welcome visitors from around the world so they will return in the future and encourage others to come. Many will also come back as investors.

The government has recently undertaken new initiatives which are directed toward enhancing tourism potential during and after Expo. These include the Partners in Tourism Program under which the government shares equally in regional marketing projects with nine private sector associations.

The government is also taking steps to promote the growth and development of the film industry. The province is already viewed as a choice location due to reasonable costs, qualified and experienced crews, and a diverse range of climates, natural scenery and urban settings. We are now working toward establishment of a major studio to move ourselves toward the next level of development.

Financial and business services represent a major opportunity for British Columbia. Our commercial and cultural links to the Asia-Pacific region and our position as a gateway to North America make Vancouver a natural location for an international commercial and financial centre. During the past year, I have consulted with leaders of the financial community in Vancouver and have found a great deal of interest in this concept. More recently the federal government has announced that it will assist us to establish an international banking centre in Vancouver. We will be working closely with Ottawa to bring this proposal to fruition as a key element in the much broader concept of Vancouver as an international financial centre.

A complementary initiative, the British Columbia Equity Investment Plan, will provide an incentive for individuals to put their savings to work, through the capital markets, to finance investment and job creation.

Our new network of trade and convention centres will play a major role in promoting British Columbia as a centre for international business. To focus this effort, we have given British Columbia Place full responsibility for managing the Pier B.C. Convention Centre and the Whistler Conference Centre. A new organization, Conventions B.C., will be responsible for promoting convention centres throughout the province. Last month the province signed an agreement with the federal government for the joint funding of a new convention centre in Victoria, a project in which I have special pride. Under this agreement the two governments will each contribute $7.275 million toward the $25.8 million facility, which will be owned and operated by the City of Victoria.

We shall be working with the federal government in the coming year to improve the management of our basic transportation infrastructure, particularly Vancouver International Airport and the Port of Vancouver, both of which are developing as hubs for international trade. We shall also be designing programs to encourage the development of exports by the service sector, and have allocated $2.5 million for this purpose. The government will seek the advice of service industry representatives on the best way to provide this assistance.

Light manufacturing industries, particularly those based on advanced technology, are a rapidly growing part of our economy. For example, the electronics industry is now number five and specialized industrial products are growing rapidly. New businesses are started every week and many have the potential to become major employers.

The province's Discovery Enterprise Program assists in this growth. To date this program has helped launch more than 25 high technology businesses by providing them with start-up equity and loan financing. The Discovery Foundation will be provided with an additional $8 million to continue this program in 1986/87.

The Small Business Venture Capital Program has also been successful in establishing 17 new venture capital corporations, which will make significant investments in the province's manufacturing and processing, tourism, aquaculture and research and development sectors.

One particularly exciting new industry in British Columbia is aquaculture, which is expected to grow rapidly in the coming years. In the next decade, aquaculture revenues are predicted to increase from $3 million to $150 million, and direct and indirect employment is predicted to expand from 500 to 3,500 permanent jobs. Recognizing the growth potential of this sector, the provincial government will provide an additional $700,000 for productivity enhancement projects and market development, over and above the $3.9 million in annual financial assistance now provided.

Clearly this list is not exhaustive but it does indicate the range of potential new opportunities. We cannot, however, assume that we shall easily succeed in all of these areas. We must work together to maintain the spirit and drive necessary to succeed in an ever-tougher world marketplace. A word of caution — there are many others seeking the same business and willing to fight hard to get it. In order to win, we must want it more and work harder. I know that British Columbians are equal to this challenge.

Excellence In Education

One of our greatest strengths in this competition will be our people, and their knowledge and skills. In this, our educational institutions will play a key role. We announced last month the creation of a new fund to finance improvements in our schools, colleges, institutes and universities over a three-year period. This long-term framework will assist these institutions in planning to meet the challenges ahead.

The Fund for Excellence in Education will provide a total of $110 million for 1986/87 and a minimum of $600 million over three years. If economic circumstances improve sufficiently, more will be provided in the second and third years. This money will be used to place computers in classrooms, upgrade teaching skills, and support college programming related to economic development. We expect to see universities, government and private business cooperating in setting up centres of excellence. Many other measures will be funded, and we invite the institutions to be bold and creative.

My colleagues, the Ministers of Education and Post-Secondary Education, have consulted broadly and are inviting proposals. Initial draws on the Fund, totalling $35 million for 1986/87, have been announced by the ministers to meet cost pressures and certain other commitments. The remainder will be available for allocation on the basis of merit. I am advised by my colleagues that submissions are already coming in and that there will be strong competition.

I am sure all Members will agree that our investments in development represent an impressive program of renewal. In the past year we have introduced a tremendous array of measures to support and strengthen our traditional resource industry base and to attract and support new industries. That program will accelerate in the coming year through the initiatives I have just announced and the tax measures I shall outline in a few minutes.

We also bring together this year the elements of an integrated plan for developing and promoting British Columbia. Expo 86 has served as the catalyst for completion of SkyTrain, Canada Place, the Coquihalla highway and Annacis crossing and will lead to future opportunities in trade, tourism and investment. Developments will quickly follow on the Expo site and other key lands assigned to British Columbia Place, in Greater Vancouver and Victoria.

With Expo 86 as the centrepiece, both to celebrate our achievements and to open the door to rich business prospects, this year will stand as a turning point in British Columbia's history.

VI. EXPENDITURE POLICY

I shall now take a few minutes to review the expenditure budget for 1986/87. The Estimates presented today provide for total expenditure of $9.643 billion, an increase of 5.7 per cent from the most recent forecast of spending for 1985/86.

This represents a somewhat larger increase than in the past few years, to accommodate the economic initiatives I have just described. Nevertheless, we shall continue to hold a tight rein on general operating expenditure in order to maintain fiscal discipline and build upon the efficiency gains of the past few years. No provision has been made in this budget for salary increases for employees of the government or agencies funded by the government, except for increases already granted. To the extent that additional funds are available, they are being used to promote job creation and provide services for British Columbians, not to increase the salaries of those now working.

I discussed a moment ago the crucial role to be played by education in the economic renewal strategy. With the addition of the 1986/87 allocation of $110 million from the Fund for Excellence in Education, the total budgets for the ministries of Education and Post-Secondary Education are up $151.7 million or 8.6 per cent, a clear demonstration of our commitment to making schools and post secondary institutions major contributors to the province's economic and social well-being. Education expenditures also include $85 million from general revenue to offset reduced property tax revenue resulting from the second-year effects of the non-residential school tax reductions introduced last year.

One of the aims of this government is to enable all students who would profit from a higher education to pursue that goal if they so choose, and to encourage the best students to make that choice. Reflecting that commitment, my colleague, the Minister of Post-Secondary Education, has announced that $10.9 million will be budgeted for student aid in 1986/87, up from a projected expenditure of $6.8 million in this fiscal year. Students may receive loans on generous terms to finance their education, and are eligible for partial remission of the loans upon graduation. In addition, the top 30 per cent of students can win scholarships to assist them with their education.

The increased funding will also permit the government to include trade schools in the expanded student aid program and to increase scholarship amounts to keep pace with tuition increases.

The Ministry of Labour also has a major responsibility in developing human potential, through coordination of job training and employment programs provided by provincial ministries and the federal government.

Discussions are now underway, in the context of the Canadian Jobs Strategy, to develop new federal-provincial initiatives aimed at providing long-term employment for British Columbians. We shall also be seeking through these discussions to ensure adequate federal funding for apprenticeship and other training programs through British Columbia's colleges and institutes.

My colleague, the Minister of Labour, will be expanding programs to assist young people in obtaining permanent employment. The province will provide $10 million for Challenge 86, a continuing federal-provincial program that has provided valuable work experience during the spring and summer months to students and youth. This program will also provide assistance to employers to train students and youth for work at Expo 86. Funding will again be provided for the successful Student Venture Loan Program, to enable young British Columbians to develop entrepreneurial skills while earning incomes to support their education.

The Ministry of Labour has been allocated $600,000 for the operation of the Youth Advisory Council and the Youth Grants Program, to promote the independence of young British Columbians and their involvement in the economic and social development of our communities.

The government is also providing a new allocation of $10 million to fund new programs developed for the specific purpose of assisting unemployed British Columbians to enter the labour market and meet the changing needs of employers. A further $5 million will fund programs targetted to students, recent graduates and youth whose lack of work experience is a barrier to permanent employment. These two new programs complement existing provincial and federal initiatives and demonstrate the government's commitment to provide training and employment opportunities for employable GAIN recipients and other unemployed people.

Thousands of jobs will also be created across the province through the highway construction program and the new Forest Stand Management Fund.

The Ministry of Human Resources will receive a budget of $877 million for the GAIN income assistance program, down $11 million from the revised estimate for 1985/86. This reduction reflects the success of our economic renewal plan in creating jobs, as well as the expected impact of the employment programs for GAIN recipients which I just mentioned. My colleague, the Minister of Human Resources, will shortly announce details of an enhanced earnings exemption policy to assist GAIN recipients and ease the transition to employment.

British Columbia's Pharmacare Program, which has been allocated an additional $20 million for 1986/87, remains one of the most generous in Canada. One hundred per cent coverage of prescription drug costs is provided for our senior citizens and universal Pharmacare coverage is available to all British Columbians faced with excessive annual prescription drug costs.

The Minister of Human Resources recently announced the appointment of a full-time Superintendent of Family and Child Services to address the problems and needs of abused children and their families. An additional $2.3 million has been provided in 1986/87 to address the growing need for special care and services for these children.

The Ministry of Health continues to have the largest allocation of any ministry, with a total of $2.755 billion or 28.6 per cent of the provincial budget.

The health care system faces difficult pressures in adapting to population shifts, changing expectations and new medical technology. To provide a framework for addressing these pressures, I will present legislation today to establish a three-year Health Improvement Fund. The Fund will provide a total of $120 million for 1986/87 and at least $720 million over three years. Again, the Fund may be increased in the second or third year if economic circumstances permit.

My colleague, the Minister of Health, will consult with the health care community to solicit proposals and establish priorities for the use of this Fund. Obviously, we cannot fulfill every wish in the health care system, so we will have to make choices. The views of the health care professions and of the general public will be crucial in this exercise. We hope to be able to support such priorities as organ transplants, new drugs, advanced cancer treatment and AIDS therapy, as well as new hospital beds. Ideas which will reduce pressure on the hospital system through preventive measures and outpatient services are especially encouraged. To emphasize: our preference is to increase service levels rather than the incomes of those providing services.

Hospitals and related facilities remain vitally important to our health care system. Over the last few months we have announced new capital commitments of more than $140 million to meet the needs of British Columbians. We are providing extended care beds in communities all over the province as well as needed expansions of acute care services. This building program reflects a continuing commitment to meet the needs of an aging population.

The Ministry of Attorney General will receive an increase of $20 million for 1986/87, largely to accommodate the increasing costs imposed by the federal government for RCMP services, the cost of implementing the *Young Offenders Act*, and costs for recently completed court and corrections facilities.

The ministry is also proceeding with the construction of new correctional facilities in Kamloops, Prince George and Logan Lake to meet program requirements and replace existing facilities. Projects announced recently by my colleague, the Attorney General, provide for almost $40 million to be spent over the next three years.

The Ministry of Agriculture and Food will receive $115.3 million in 1986/87, an increase of 2.1 per cent. A drought assistance program is provided for grain farmers in the Peace River area and a new loan guarantee program will be introduced for tree fruit growers in the Okanagan.

Early in the new fiscal year, the Ministry of Transportation and Highways will open phase one of the new Coquihalla highway connecting Hope and Merritt. This historic event will mark the completion of the first new route between the Lower Mainland and the interior in 37 years. Work will continue on phase two of the highway from Merritt to Kamloops and will commence on the Okanagan connector. With traffic flowing on phase one, the government will begin collecting tolls amounting to an estimated $16 million in 1986/87.

The coming year will also mark the opening of the initial stage of the Annacis crossing system, the first major structure to span the Fraser River in the Lower Mainland since the completion of the Port Mann bridge in 1964.

A total highway construction and capital maintenance budget of $581.4 million for 1986/87 will provide for continuation of these two major projects, as well as a large number of smaller projects throughout the province.

The Ministry of Transportation and Highways will also provide $14.5 million to the British Columbia Railway Company for the operating and capital requirements of the passenger service and the Fort Nelson Extension. We are making this contribution because these services are essential to many communities, even though they are not commercially viable.

The operating subsidy for the British Columbia Ferry Corporation will be increased by $17 million to $57 million. This increase reflects two developments. First, in October 1985, the Corporation assumed responsibility for operating the saltwater ferry fleet of the Ministry of Transportation and Highways, purchasing the assets from the government for $55 million. Funding of $10 million is provided to assist the Corporation in meeting the costs of operating 14 additional vessels on 10 routes. Second, the Corporation will run an extended schedule on its main routes during Expo 86 to encourage Expo tourists to extend their visits to Greater Victoria and Vancouver Island. Service will also be enhanced on the Gulf Islands, Sunshine Coast and Comox-Powell River routes. An additional $7 million is provided for these purposes.

Payments to British Columbia Transit for the operation of public transportation services throughout the province will increase to $162.1 million in 1986/87 from $74.3 million in the current year, reflecting the funding arrangements for the new SkyTrain system in Greater Vancouver. Under the formula for sharing transit costs among the provincial government, municipalities and riders, the government will contribute $121 million for SkyTrain, SeaBus and for conventional and custom bus services around the province. In addition, the provincial government will directly fund $275 million of the capital cost of SkyTrain, equivalent to 50 per cent of the cost of building the guideway. Debt servicing costs for this contribution will require an estimated $41.1 million in 1986/87.

Funding of $6.5 million will be provided for the Official Visits Program, which will bring government, business and professional leaders from around the world to attend Expo 86, and expose them to the promise of British Columbia. We expect many new business arrangements to result.

The government has established a $30 million Expo Legacy Fund to aid communities which wish to build and develop their own Expo 86 commemorative projects, which may include convention, community and cultural centres, recreational facilities and parks. To date, Legacy Fund assistance totalling $14 million has been announced for several projects across the province with total project costs of $47 million.

The municipal Revenue Sharing Program will shortly begin its ninth year as an innovative and effective means of giving local governments access to the broader provincial revenue base. For 1986/87, there will be a total of $227 million available for distribution to municipalities, an increase of $19 million. A further $3.9 million will be added to the stabilization account for distribution in future years.

These are just a few highlights of the government's expenditure plans for 1986/87. My colleagues will have an opportunity to outline their budgets in much greater detail in Committee of Supply.

VII. TAXATION AND REVENUE POLICY

I turn now to the subject of taxation. In the coming fiscal year, taxation measures introduced in my last budget will provide increasing economic stimulus. Members will recall that many of these measures are being phased in over a three-year period, to accommodate them within our fiscal framework. Let me now reaffirm the commitment made last year. All of the tax measures in the program for economic renewal will proceed as planned.

Before describing additional measures for this year, I shall take a few moments to remind the House of what we achieved with the 1985 budget.

Long before the budget, the Ministry of Finance conducted thorough research into the impact of taxation on economic development, comparing taxes on British Columbia firms with those in other jurisdictions. After publishing the results of this research, in the fall of 1984, I undertook a series of 28 public meetings around the province at which I heard the views, comments and suggestions of hundreds of British Columbians.

I am very pleased with what resulted from that process: a set of tax reductions and reforms to stimulate business, secure employment and put British Columbia on a strong path of renewal and new job creation.

A key measure was the Small Business Employment Tax Credit. For two taxation years, beginning after March 31, 1985, small businesses in British Columbia will receive a tax credit equivalent to about $300 for each employee. Those businesses not in a taxable position can receive the credit in cash. This measure will provide about $150 million in stimulus to small business over the two taxation years.

A second measure is the phase-out of property tax on machinery and equipment. In 1985 school tax rates on machinery and equipment were reduced by one-third. This year the rates will be further reduced and beginning in 1987 the tax will be eliminated altogether. To provide a particular incentive for investment, new machinery and equipment installed since September 30, 1984 was immediately exempted from property tax. In 1986/87, this measure will reduce taxes by about $126 million.

On a related point, I should mention that the government approved last week an Order-in-Council establishing the property tax rates for other than municipal and school purposes. At that time I announced a deferral until 1987 of any phase-out of property tax on machinery and equipment for non-school purposes. This is a relatively small component of the total tax on machinery and equipment, and for a variety of technical reasons the Union of British Columbia Municipalities has

asked that I defer action to remove it for one year. I am pleased to accept the recommendation. I emphasize, however, that the original deadline remains. Machinery and equipment will not be assessed or taxed for 1987 and subsequent years.

A third measure from last year's program is the reduction in industrial and commercial school property tax rates. Industrial rates have been reduced from 3.4 times the residential rate to three times the residential rate in 1985 and this year will be reduced to 2.45 times the residential rate, or the same level as the commercial tax rate. This will reduce these taxes by about $41 million in 1986/87. In 1987 both commercial and industrial rates will be reduced to twice the residential rate. These school tax rate reductions, together with the elimination of property taxes on machinery and equipment, remove a serious impediment to new investment in British Columbia and enhance the competitive position of existing British Columbia businesses.

A fourth measure was the reduction in fuel tax rates for off-road uses to 7 per cent of the pre-tax selling price. Providing $55 million in tax relief in 1986/87, this measure brought the taxation of these fuels into line with the general social service tax rate.

A fifth measure, and one of which I am especially proud, is the phase-out of the Corporation Capital Tax. In 1986/87, the exemption level under this tax increases from $5 million to $10 million, reducing taxes by $40 million and completely exempting a further 1,400 businesses, in addition to the 5,600 exempted as a result of the change last year. Effective April 1, 1987 the tax will be eliminated, except for large banks with head offices outside of the province. This was an especially burdensome tax in difficult economic times and was a deterrent to economic renewal.

A sixth major measure was the Small Business Venture Capital Tax Credit. A credit against British Columbia personal income tax of 30 per cent of the amount invested is now available to individuals investing in venture capital corporations, which then make investments in eligible small businesses. To date, 15 private and 2 public venture capital corporations have been registered, with approved equity totalling $13 milion. About $1 million has already been channelled to eligible small businesses. These venture capital firms will be an important source of equity capital for small businesses in the manufacturing and processing, tourism and aquaculture industries, and for those in the research and development field. In a moment, I shall announce an important extension to this program.

Finally, we implemented a five-year freeze on water rental fees for the generation of hydro-electricity. As a result of this freeze, we will forego about $28 million in revenue in 1986/87 and approximately $300 million over five years, to the benefit of industrial, commercial and residential electricity users.

New Tax Measures For Economic Renewal

As mentioned earlier, I am introducing further tax measures today to support economic renewal. These have been carefully designed to extend the broad tax relief granted through the measures now in effect, to provide specific relief to industries which are put at a disadvantage by the current tax system, and to encourage industries which are expected to grow and contribute to the diversification of our economy.

- First, the general corporation income tax rate will be reduced in two stages, to 15 per cent effective January 1, 1987 and to 14 per cent effective January 1, 1988.

Firms considering investment in British Columbia have often cited the current corporation tax rate of 16 per cent, which is equal to the highest rate in other provinces, as an impediment. It is also viewed by some as a penalty imposed on the successful.

Tax relief estimated at $2 million in 1986/87, $32 million in 1987/88 and $64 million in 1988/89 will be provided to some 2,000 medium and large businesses throughout British Columbia. This measure addresses the last major anomaly in the province's tax structure. Personal income taxes are already

the second lowest in Canada and the provincial income tax rate for small businesses is lower in only two other provinces. The major fixed taxes on businesses were reduced in the 1985 budget. With this change, British Columbia's corporation income tax rate will be lower than the rate in six other provinces. This measure completes the program of major adjustments to the business tax system begun last year. Thanks to our actions, the total tax burden on businesses in British Columbia will compare very favourably with that in all other provinces. British Columbia firms can now be more competitive, and the province is considerably more attractive for employment-generating investment.

- Second, I am introducing a new structure of property taxation for private forest land to provide an incentive for better forest management.

Forest stocks on Crown lands will be enhanced through the reforestation and silviculture program I announced earlier. To enhance stocks on the 3 million acres of private forest in the province, much of which is highly productive land, I am reducing property taxes on these lands and restructuring tax rates to encourage intensive forest management. Property taxes collected from private forest land will be reduced by an estimated $3 million per year as a result of this change, beginning in the 1988 taxation year.

- Third, several technical changes will be made to simplify property assessment and taxation. The assessment of utilities will be simplified and a new, clearer definition of improvements will be introduced. Current industrial assessment methods are a frequent source of disagreement and expensive litigation and can lead to uncertainty in municipal budget preparation. They will be reviewed by a panel of experts who will seek a simpler, more acceptable method of determining market value for industrial properties, which will provide a more stable basis for municipal taxation.

Complexity is costly to both business and government. The simplification we seek will be of mutual benefit. The changes should have no material impact on revenue, but will allow firms to devote their valuable management and professional resources to more productive activities.

- Fourth, the Small Business Venture Capital program will be broadened to include export-oriented service corporations as eligible investments of venture capital corporations.

One of the difficulties often encountered by potential service exporters is a lack of sufficient working capital to enable them to enter the world market. Often, these firms have no tangible property against which working capital can be borrowed, because the product being sold is an intangible such as engineering expertise or another form of intellectual property. Risk capital supplied by venture capital corporations will help fill this gap. My colleague, the Minister of Industry and Small Business Development, will present legislation shortly to authorize this change. The Minister will also be exploring other possible changes to this program and will be developing a new Employee Venture Capital program to take advantage of a federal credit introduced last year.

- Finally, effective January 1, 1987, the insurance premium tax will be eliminated on insurance sold by companies with head offices in British Columbia.

This measure is part of our broader effort to bolster the financial sector. The insurance industry has encountered financial difficulties, not only in Canada but worldwide. At this time of adjustment in the insurance industry, the government is demonstrating its commitment to those companies with headquarters in British Columbia and its willingness to welcome new or existing companies that choose to locate here.

This change will reduce revenue by $700,000 in 1986/87 and $4 million in a full year.

In the coming months, we shall be studying other initiatives which might be taken to assist the development of Vancouver as an international financial centre.

Measures To Improve Fairness

In addition to economic renewal measures, I am today announcing a package of other measures to improve the fairness of the tax system.

In January of this year, I responded to expressions of public concern by announcing a review to determine whether, in light of falling world oil prices, British Columbia's system of ad valorem fuel taxation remains appropriate.

That review has now been completed. It shows that British Columbia's gasoline tax is among the lowest in Canada and is not a significant factor in gasoline price increases. Since October 1, 1981, when fuel tax indexing was introduced, the provincial gasoline tax has increased by less than 3 cents per litre. In comparison, gasoline pump prices have increased by 18.4 cents per litre. Federal tax increases, oil price increases, and industry pricing policy account for most of this change. I would also point out that the federal sales tax increase announced in the February 26 Federal budget and another scheduled federal fuel tax increase on January 1, 1987 will further increase the federal share of gasoline prices. Provincial fuel taxation accounts for less than one-sixth of the increase in price since 1981, and less than one-fifth of the total price of gasoline.

Furthermore, as general oil price decreases work through to gasoline prices, the provincial tax will decline automatically as a result of the indexing formula.

Although there is no statutory connection between fuel taxes and highway expenditures, it is interesting to compare the figures. In 1985/86, the provincial government will have collected an estimated $356 million from taxation of on-road use of fuels, while spending more than $1 billion on highway construction and maintenance. Indeed, highway expenditures have exceeded fuel tax revenue in each of the last ten years. By contrast, the federal government collects $250 to $300 million per year from taxation of on-road fuel users in British Columbia and spends virtually nothing on highways in this province. Those who feel that fuel taxes should support highway costs have no quarrel with the provincial government.

Another concern that has been suggested to me is that high gasoline prices may deter tourists from coming to British Columbia and thus have a negative effect on Expo 86. Our analysis suggests that this is not a significant problem. United States visits to this province increased eight per cent in 1985, the best record in Canada. And while American tourists will find gasoline prices somewhat higher than at home, the difference amounts to only $10 to $15 in United States currency for a 1,000 mile trip. All things considered, the total price of a holiday in British Columbia compares very favourably with one in the United States.

To summarize: provincial fuel taxes are not, as some have suggested, preventing gasoline prices from declining along with world oil prices. Nor are they unreasonably high compared to highway spending. The one argument which I do find compelling is that fuel taxes should not increase under the ad valorem system when gasoline prices are declining. Because it takes time to collect price data, the tax rate is adjusted each quarter on the basis of prices some six to eight weeks earlier. It now appears that the April 1, 1986 adjustment would yield a small tax increase, despite the decline in gasoline prices in recent weeks. Based on current price forecasts, the tax rate will decline significantly on July 1, 1986. To prevent the increase next month I am making the following change to the fuel tax formula:

- Effective for the 1986/87 fiscal year, tax rates under the *Motor Fuel Tax Act* will not be permitted to exceed the levels established January 1, 1986. Any decreases generated by the indexing formula will, of course, proceed as usual.

This change addresses the one legitimate concern arising from our review of fuel taxes by capping the tax while world oil price declines work through to the gasoline pumps.

Mr. Speaker, I would now like to announce two measures being introduced to improve the fairness of taxation for the handicapped:

- Effective for the 1986 property taxation year, home owners with resident handicapped relatives will be eligible to claim the additional home owner grant now available to handicapped home owners; and,

- Effective midnight tonight, the eligibility criteria for the fuel tax rebate program for handicapped drivers will be extended to cover all handicapped individuals suffering a permanent impairment of locomotion who have a doctor's certificate stating that public transportation would be hazardous.

In both cases some individuals who clearly fit the spirit of the programs were being excluded. The home owner grant is intended to help defray the additional costs of equipping a home for a handicapped individual. These costs can be burdensome, whether or not the individual is the owner of the home.

The fuel tax rebate program is intended to help handicapped individuals who must drive their own vehicles. However, not all of those people qualify under the current regulations. The change will broaden the program without removing benefits from anyone currently eligible.

I am also introducing a number of important administrative measures to improve equity in the tax system. These are summarized in the appendices to the budget document, so I will mention only a few.

- Effective for the 1987 property taxation year, a supplementary assessment of property may be made when a mobile home is relocated between September 30 and December 31 of any year.

- Effective for the 1987 property taxation year, newly-leased Crown land will not be assessed for the property taxation year in which the lease begins.

- Effective April 1, 1986, interest charged on the land tax deferment program for senior citizens will be changed from a compound interest rate to a simple interest rate, applied only to the principal amount outstanding, not including accumulated interest. The interest rate at all times will remain below market rates and initially will continue at the current rate of 8 per cent per annum.

I firmly believe that I have a responsibility to constantly improve the fairness and consistency of treatment afforded taxpayers under provincial legislation. These measures are just the latest in a series of administrative and legislative improvements made over the last few years.

Before concluding, let me report on the Consumer Taxation Amnesty Program, which I announced in last year's budget. This program provided businesses and individuals with an opportunity to voluntarily disclose and pay taxes which were due, without payment of penalty. The program was introduced to strengthen the integrity of the tax system by encouraging the small number of persons who do not comply to pay and remit taxes due.

The amnesty was very successful. Over the period of the program, from March 14 to July 15, 1985, 120 businesses and individuals made voluntary remittances amounting to $1,583,000.

The program was followed by introduction of higher penalties for non-compliance, to encourage businesses and individuals to abide by provincial tax legislation. Our self-assessment and remittance system is key to ensuring a fair and rational tax system for all British Columbians.

VIII. CONCLUSION

Today's budget marks another crucial step in this government's strategy for economic renewal. In the past four years we have taken giant strides to overcome obstacles that seemed insurmountable, and we are firmly on a course toward a better future.

These years have been hard for British Columbians. The easy growth and prosperity which we took for granted were swept away by events in the larger world. Suddenly, we found ourselves in a struggle to compete, just to retain what we had, let alone to build for the future. I think we can now look around with pride in the fact that British Columbians have proven equal to this challenge.

With leadership from this government, we have put our fiscal house in order and assembled a partnership for economic renewal. Employees, businesses, municipalities and the provincial government are already working together as never before to make British Columbia what we know it can be: a dynamic and enlightened province on the forefront of economic and social development.

This year we are bringing new members on to the team, to make our educational institutions an integral part of economic renewal and to get health professionals working together to improve our quality of life.

Jobs are being created in British Columbia, not as fast as I would like, but at the best rate in years. And policies are in place to provide the foundation for growth and diversification to meet the challenges and opportunities of the emerging world economy.

I know that other governments are looking with envy at what we have accomplished. We have done what they have yet to do, reducing the cost of government and preparing ourselves for the competitive race ahead.

In just a few weeks, we will open our doors to the world to celebrate our achievements in the century since a ribbon of steel was pushed through our rugged mountains to a shoreline far removed from the centres of civilization. Expo 86 will show our visitors what we can do and how we have grown as a society in one of the most beautiful and richly-endowed places on Earth.

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Table 1

Operating Transactions and Net Equity
Consolidated Revenue Fund

	Actual 1984/85	Revised Forecast 1985/86	Estimate 1986/87
		($ millions)	
Operating Transactions:			
Revenue	7,789.9	8,175.0	8,768.0
Expenditure	8,783.8	9,123.0	9,643.0
Surplus (Deficit)	(993.9)	(948.0)	(875.0)
Net Equity (Net Deficiency) at Year End:			
Opening Balance	(591.4)	(1,585.3)	(2,533.3)
Surplus (Deficit) for the Year	(993.9)	(948.0)	(875.0)
Closing Balance	(1,585.3)	(2,533.3)	(3,408.3)

Operating revenue is estimated to increase by 7.3 per cent from the revised forecast for 1985/86 to $8,768 million for 1986/87. The revenue estimate includes the second-year impact of the measures introduced in the 1985 budget, phased-in over three years, and the impact of the measures introduced in the 1986 budget. These measures are expected to reduce 1986/87 operating revenue by $108 million.

Operating expenditure is estimated to increase by 5.7 per cent from the revised forecast for 1985/86 to $9,643 million for 1986/87. The expenditure estimate includes $230 million for the Funds for Excellence in Education and Health Improvement.

The deficit for 1986/87 is estimated at $875 million, a decrease of $73 million from the revised forecast for 1985/86 and the third consecutive year of decline. By March 31, 1987, the excess of financial liabilities over financial assets, or net deficiency, is estimated at $3,408 million.

Table 2

Summary of Financial Transactions
Consolidated Revenue Fund

	Actual 1984/85	Revised Forecast 1985/86	Estimate 1986/87
		($ millions)	
Financial Requirements			
Operating Transactions:			
Revenue	7,789.9	8,175.0	8,768.0
Expenditure	8,783.8	9,123.0	9,643.0
Surplus (Deficit)	(993.9)	(948.0)	(875.0)
Net Receipts from (Disbursements for) Financing Transactions	27.1	16.0	(41.0)
Net Receipts from (Disbursements for) Working Capital Transactions and Fiscal Agency Loans	84.2	90.0	55.0
Total Direct Financial Requirements	(882.6)	(842.0)	(861.0)
Financial Sources			
Net Direct Borrowing for Government Purposes	879.8	800.0	800.0
Decrease in Cash and Temporary Investments	2.8	42.0	61.0
Total Direct Financial Sources	882.6	842.0	861.0

The provincial government's financial requirements for 1986/87 are estimated at $861 million. Requirements to finance the deficit of $875 million and net financing transactions disbursements of $41 million are expected to be partially offset by a net cash inflow from working capital transactions.

Net direct borrowing for government purposes is expected to total $800 million during 1986/87. The remaining financial requirements of the provincial government are expected to be met by a reduction in cash and temporary investments of $61 million.

Table 3

Summary of Source and Application of Funds
Consolidated Revenue Fund

	Actual 1984/85	Revised Forecast 1985/86	Estimate 1986/87
		($ millions)	
Source of Funds:			
Revenue	7,789.9	8,175.0	8,768.0
Net Direct Borrowing:			
For government purposes	879.8	800.0	800.0
Fiscal Agency Funds on behalf of Crown corporations	1,078.0	604.6	490.5
	1,957.8	1,404.6	1,290.5
Financing Transactions Net Receipts (Disbursements)	27.1	16.0	(41.0)
Decrease (increase) in Working Capital	80.8	138.2	116.0
Total Source of Funds	9,855.6	9,733.8	10,133.5
Application of Funds:			
Expenditure	8,783.8	9,123.0	9,643.0
Fiscal Agency Funds reloaned to Crown corporations	1,071.8	610.8	490.5
Total Application of Funds	9,855.6	9,733.8	10,133.5
Financing Transactions Net Receipts (Disbursements):			
Decrease (increase) in mortgages outstanding	(4.3)	(23.1)	(15.1)
Decrease (increase) in investments and advances to Crown corporations	2.1	17.8	16.0
Decrease (increase) in property under development	(4.4)	4.9	(15.0)
Decrease (increase) in other assets	33.7	16.4	(26.9)
Total Financing Transactions Net Receipts (Disbursements)	27.1	16.0	(41.0)
Change in Working Capital:			
Decrease (increase) in accounts receivable	41.1	(5.9)	(31.6)
Decrease (increase) in amounts due from Crown corporations	(57.1)	30.0	25.0
Decrease (increase) in prepaid program costs	(10.8)	(3.5)	2.2
Decrease (increase) in inventories	(5.4)	(4.8)	(3.2)
Increase (decrease) in accounts payable	73.6	63.1	50.2
Increase (decrease) in amounts due to Crown corporations	27.4	7.1	2.0
Increase (decrease) in deferred revenue	9.2	10.2	10.4
Decrease (increase) in working capital other than cash and temporary investments	78.0	96.2	55.0
Decrease in cash and temporary investments	2.8	42.0	61.0
Total decrease (increase) in Working Capital	80.8	138.2	116.0

This table provides details of the major flows of funds of the provincial government. Sources of funds are expected to total $10,134 million during 1986/87, including revenue of $8,768 million, net borrowing for government purposes of $800 million, net fiscal agency borrowing on behalf of Crown corporations of $491 million and net receipts from changes in working capital and financing transactions of $75 million.

These funds will be used to meet 1986/87 estimated provincial government expenditure of $9,643 million. In addition, the $491 million in funds raised by the provincial government through fiscal agency borrowing will be reloaned to Crown corporations.

Table 4

Revenue by Source
Consolidated Revenue Fund

	Actual 1984/85	Revised Forecast 1985/86	Estimate 1986/87	Increase (Decrease) 1985/86–1986/87
		($ millions)		(per cent)
Taxation Revenue:				
Personal income	1,853.3	2,073.0	2,351.0	13.4
Corporation income	366.2	316.0	406.0	28.5
Social service	1,331.5	1,467.0	1,623.0	10.6
Fuel	468.3	437.0	436.0	(0.2)
Other	341.3	379.0	372.0	(1.8)
	4,360.6	4,672.0	5,188.0	11.0
Natural Resource Revenue:				
Petroleum and natural gas	337.9	285.0	242.0	(15.1)
Minerals	54.2	60.0	67.0	11.7
Forests	127.3	130.0	140.0	7.7
Water	190.8	207.0	220.0	6.3
Other	10.7	11.0	12.0	9.1
	720.9	693.0	681.0	(1.7)
Other Revenue:				
Sales and services	201.6	202.0	240.0	18.8
Licences and permits	170.6	180.0	191.0	6.1
Interest	106.3	84.0	76.0	(9.5)
Miscellaneous	76.8	66.0	70.0	6.1
	555.3	532.0	577.0	8.5
Contributions from Government Enterprises:				
Liquor Distribution Branch	355.9	393.3	420.0	6.8
Other	4.4	8.7	10.0	14.9
	360.3	402.0	430.0	7.0
Contributions from Federal Government:				
Established Programs Financing	1,059.5	1,090.0	1,134.0	4.0
Canada Assistance Plan	572.9	604.0	612.0	1.3
Fiscal Stabilization Program	35.0	—	—	—
Other	123.6	122.0	146.0	19.7
	1,791.0	1,816.0	1,892.0	4.2
Non-Recurring Revenue	1.8	60.0	—	—
TOTAL REVENUE	7,789.9	8,175.0	8,768.0	7.3

Consolidated Revenue Fund revenue for 1986/87 is estimated at $8,768 million, an increase of 7.3 per cent from the revised forecast for 1985/86. The revenue estimate reflects the second-year impact of the measures introduced in the 1985 budget, and the impact of the measures introduced in the 1986 budget, which are expected to reduce 1986/87 operating revenue by $108 million.

Taxation revenue is expected to increase by 11.0 per cent to $5,188 million. Personal income tax revenue is expected to increase by 13.4 per cent to $2,351 million, as a result of continuing economic recovery and the positive impact on provincial government revenue of the tax measures introduced in the two most recent federal budgets. Corporation income tax revenue is estimated at $406 million for 1986/87, an increase of 28.5 per cent from the 1985/86 revised forecast, but still well below the $580 million received during 1981/82. Social service tax revenue is expected to increase by 10.6 per cent to $1,623 million, as a result of expected strong growth in consumer expenditure, partially due to Expo 86, and an expected increase in business capital spending. Fuel tax revenue is estimated at $436 million for 1986/87 and shows a slight decline from the previous year as a result of lower petroleum prices. Other taxation revenue also shows a decline to $372 million, primarily due to a $36 million decline in corporation capital tax resulting from the phased-in elimination of the tax announced in the 1985 budget.

Natural resource revenue is expected to decrease by 1.7 per cent to $681 million during 1986/87. The forecast decline in petroleum and natural gas revenue caused by weak petroleum prices is expected to be only partially offset by increases in other natural resource revenue.

Contributions from the federal government are expected to increase by 4.2 per cent during 1986/87 to $1,892 million. Established Programs Financing cash contributions are expected to increase by only 4.0 per cent, due primarily to a federal change in the funding formula, which reduces the growth in the federal contribution by 2 percentage points. Other federal contributions are forecast to increase by 19.7 per cent as a result of increased cost-shared expenditure by the provincial government under the Economic and Regional Development Agreement.

Table 5

Expenditure by Ministry
Consolidated Revenue Fund

	Estimates 1985/86[1]	Revised Forecast 1985/86[1]	Estimates 1986/87	Increase (Decrease) 1985/86–1986/87[2]
	($ millions)			(per cent)
Legislation	10.5	10.4	10.9	4.8
Auditor General	3.7	3.9	4.4	12.8
Ombudsman	2.0	2.2	2.4	9.1
Premier's Office	0.7	0.7	0.7	—
Agriculture and Food	113.0	107.2	115.3	7.6
Attorney General	367.3	369.7	387.0	4.7
Consumer and Corporate Affairs	19.2	18.9	21.0	11.1
Education	1,115.8	1,092.5	1,185.4	8.5
Energy, Mines and Petroleum Resources	27.1	23.5	35.3	50.2
Environment	100.1	95.7	103.9	8.6
Finance	58.7	60.2	63.6	5.6
Forests	281.0	361.5	344.7	(4.6)
Health	2,667.7	2,654.3	2,754.5	3.8
Human Resources	1,463.3	1,477.7	1,486.6	0.6
Industry and Small Business Development	46.4	25.2	66.1	162.3
Intergovernmental Relations	2.6	2.5	2.7	8.0
International Trade and Investment	26.0	25.1	26.7	6.4
Labour	54.2	51.6	64.0	24.0
Lands, Parks and Housing	91.5	112.5	121.8	8.3
Municipal Affairs	212.3	212.3	230.7	8.7
Post-Secondary Education	617.4	616.4	617.2	0.1
Provincial Secretary and Government Services	147.5	148.7	185.1	24.5
Tourism	16.1	18.1	17.4	(3.9)
Transportation and Highways	1,046.9	1,140.8	1,000.6	(12.3)
Other Appropriations:				
Student Employment Programs	10.0	9.0	15.0	66.7
Transit Services	74.3	74.3	162.1	118.2
Management of the Public Debt	384.1	337.5	457.9	35.7
Contingencies	50.0	43.0	50.0	16.3
Economic and Regional Development Agreement (ERDA)[3]	19.0	—	—	—
Universities, Colleges and Institutes Adjustments Programs[4]	27.6	27.6	—	—
Fund for Excellence in Education	—	—	110.0	—
TOTAL EXPENDITURE	9,056.0	9,123.0	9,643.0	5.7

[1] For comparative purposes, the 1985/86 estimates and the 1985/86 revised forecast have been restated to be consistent with the 1986/87 estimates.

[2] The percentage change is based on the difference between the 1985/86 revised forecast and 1986/87 estimates.

[3] ERDA expenditure has been reallocated to specific ministries with the exception of the unallocated balance of $19.0 million for 1985/86 which is now expected to be spent in later years.

[4] This program provided one-time funding for adjustment programs for universities, colleges and institutions in 1985/86.

Consolidated Revenue Fund expenditure for 1986/87 is estimated at $9,643 million, an increase of 5.7 per cent from the revised forecast for 1985/86.

The expenditure estimates include $230 million in new expenditure for health and education as follows:

- Health Improvement Fund — First year funding of $120 million of a three-year funding package of $720 million; and
- Fund for Excellence in Education — First year funding of $110 million of a three-year funding package of $600 million.

See Appendix C, The Funds for Health Improvement and Excellence in Education, for more details on these funds.

Other major expenditure initiatives included in the budget are:

- expenditure of $71 million under the federal/provincial Economic and Regional Development Agreement for silviculture and forest management projects, industrial development, small business and tourism industry development, agri-food regional development, science and technology development and mineral exploration and development;
- an additional $10 million for expanded job training and an additional $5 million for student employment;
- an additional $88 million for transit services, mainly resulting from the new funding arrangements for SkyTrain in Greater Vancouver; and
- an additional $85 million in direct grants to school districts to offset the decrease in property tax revenue resulting from the second-year impact of phased-in reductions in non-residential property taxes introduced in the 1985 budget.

Table 6

Balance Sheet
Consolidated Revenue Fund

As at March 31,	Actual 1985	Revised Forecast 1986	Estimate 1987
		($ millions)	
Assets:			
Cash and temporary investments	204.2	162.2	101.2
Accounts receivable	694.3	700.2	731.8
Amounts due from Crown corporations	152.5	122.5	97.5
Mortgages	269.4	292.5	307.6
Prepaid program costs	96.2	99.7	97.5
Inventories	48.2	53.0	56.2
Fiscal Agency loans to Crown corporations	1,309.6	1,920.4	2,410.9
Investments in and advances to Crown corporations	280.1	262.3	246.3
Property under development	57.9	53.0	68.0
Other assets	279.2	262.8	269.7
Total Assets	3,391.6	3,928.6	4,406.7
Liabilities:			
Accounts payable	822.1	885.2	935.4
Amounts due to Crown corporations	169.1	176.2	178.2
Deferred revenue	194.0	204.2	214.6
Fiscal Agency debt on behalf of Crown corporations	1,315.8	1,920.4	2,410.9
Direct debt for government purposes	2,475.9	3,275.9	4,075.9
Total Liabilities	4,976.9	6,461.9	7,815.0
Net Equity (Net Deficiency)	(1,585.3)	(2,533.3)	(3,408.3)
Total	3,391.6	3,928.6	4,406.7
Guaranteed Debt	12,207.4	11,737.0	11,207.9
Trust Funds Under Administration	11,603.5	13,200.0	15,000.0

At March 31, 1987, it is estimated that the financial assets of the government will total $4,407 million while financial liabilities will total $7,815 million. As a result, the excess of financial liabilities over financial assets, or net deficiency, at March 31, 1987, is estimated at $3,408 million.

During 1986/87, direct debt incurred for government purposes is expected to increase by $800 million to $4,076 million. In addition, fiscal agency debt incurred on behalf of Crown corporations by the provincial government is expected to increase by $491 million to $2,411 million. All of the fiscal agency funds are reloaned to Crown corporations, which are responsible for the debt servicing costs and repayments of principal for the debt borrowed on their behalf by the government.

Crown corporations and agencies also incur debt on their own behalf, which is guaranteed by the provincial government as to principal, premium if any, and interest. At March 31, 1987, net guaranteed debt is estimated to total $11,208 million, down 4.5 per cent from March 31, 1986. Total Crown corporation net debt, including debt issued by the provincial government on behalf of Crown corporations and guaranteed debt, is estimated to total $13,619 million at March 31, 1987, down slightly from the previous year.

Trust funds under administration do not form part of the Consolidated Revenue Fund. It is estimated that they will increase to $15 billion by March 31, 1987. Public sector pension funds and the reserve funds of the Workers' Compensation Board are the main components.

Table 7

Government and Crown Corporation Borrowing Requirements and Sources of Funds

	Actual 1984/85	Revised Forecast 1985/86	Estimate 1986/87
	($ millions)		
BORROWING REQUIREMENTS:[1]			
Gross Borrowing — Government Purpose[2]	928.2	1,053.3	872.2
Crown Corporation Gross Borrowing[3]			
Commercial:			
British Columbia Hydro and Power Authority	681.2	87.7	280.0
British Columbia Place	43.0	38.8	52.0
British Columbia Railway Company	(38.2)[4]	(40.0)	5.0
Economic Development:			
British Columbia Development Corporation	24.0	13.0	43.0
British Columbia Housing and Employment Development Financing Authority	—	40.0	—
British Columbia Transit	315.6	429.1	110.0
Expo 86 Corporation	159.6	88.4	(112.6)
British Columbia Ferry Corporation	—	43.2	—
Other	10.5	9.8	1.2
Social and Government Services:			
British Columbia Buildings Corporation	43.9	4.5	62.0
British Columbia Educational Institutions Capital Financing Authority	21.5	12.5	30.5
British Columbia Regional Hospital Districts Financing Authority	52.4	14.0	42.6
British Columbia School Districts Capital Financing Authority	54.0	16.2	34.1
British Columbia Systems Corporation	—	7.9	17.7
School Districts, Colleges and Universities[5]	29.0	27.0	44.0
Total Crown Corporation Borrowing	1,396.5	792.1	609.5
TOTAL BORROWING REQUIREMENTS	2,324.7	1,845.4	1,481.7
SOURCES OF FUNDS:			
Canada Pension Plan Investment Fund	354.9	185.4	107.2
Trusteed Funds	773.3	1,660.0	1,374.5
Private Issues	152.1		
Public Issues	1,044.4		
TOTAL SOURCES OF FUNDS	2,324.7	1,845.4	1,481.7

[1] Includes borrowing and lease transactions to meet current financial requirements and borrowing to meet debt repayments and sinking fund contributions.

[2] Excludes amounts borrowed by the government and loaned to Crown corporations on identical terms. These amounts are included with Crown corporation borrowing.

[3] Amounts in parentheses represent net reductions in short-term debt.

[4] Includes $200 million government guaranteed preferred share financing by BC Rail Ltd. which is a public corporation controlled by the British Columbia Railway Company.

[5] Includes funding for the University of British Columbia and Simon Fraser University, as well as short-term interim capital construction financing obtained under the Certificate of Approval Program.

Government and Crown corporation gross borrowing is estimated to total $1,482 million during 1986/87, down 19.7 per cent from the previous year and 36.3 per cent lower than in 1984/85.

Gross borrowing for government purposes, estimated at $872 million for 1986/87, is expected to decline by 17.2 per cent from 1985/86. After deducting scheduled debt repayments and increases in sinking fund balances, net borrowing to meet the government's financial requirements for 1986/87 is estimated at $800 million.

Gross borrowing for Crown corporations and agencies is estimated at $610 million for 1986/87, a decrease of 23.1 per cent from the previous year. During 1986/87 gross borrowing requirements of Crown corporations are expected to be exceeded by debt repayments and increases in sinking fund balances, estimated at $648 million. As a result, Crown corporation debt is expected to be slightly lower on March 31, 1987 than on March 31, 1986.

Further details of government and Crown corporation borrowing are provided in Appendix D: Provincial Government and Crown Corporation Financing.

GLOSSARY OF TERMS[1]

Assets — are financial claims of the government upon outside parties and items held for resale. Specific assets include cash and temporary investments, accounts receivable, amounts due from Crown corporations, inventories, prepaid program costs, mortgages, fiscal agency loans to Crown corporations, investments in and advances to Crown corporations, property held for development and other assets. Fixed assets such as buildings, roads and bridges, furniture and most Crown land are reported at a nominal value of $1.

Cash and Temporary Investments — include investments and short-term interest-bearing deposits held to meet the day-to-day obligations of the government.

Consolidated Revenue Fund — consists of the General Fund and Special Funds. The General Fund comprises the main operating accounts of the government. Special Funds represent earmarked revenues and funds set aside from the General Fund for specific purposes.

Deferred Revenue — consists of amounts received prior to a year-end that will be earned and recorded as revenue in future years.

Direct Debt for Government Purposes — consists of funds borrowed by the government to meet its financial requirements or to facilitate cash management.

Expenditure — consists of the obligations incurred by the government for goods, services and grants during the fiscal year. Under the modified accrual accounting policy of the government, expenditure is recorded when the expense is incurred rather than when a cash payment is made.

Financing Transactions — are transactions which affect the composition of assets and liabilities but are not considered to be revenue or expenditure and therefore do not affect net equity. For example, the Provincial Home Acquisition Special Account provides mortgage loans to home owners. When a loan is issued, the cash balances of the government are reduced while mortgage assets are increased. When the home owner repays the mortgage principal, cash balances are increased and mortgage assets are decreased.

Fiscal Agency Debt on Behalf of Crown Corporations — consists of funds borrowed by the government which are reloaned to Crown corporations under the authority of the *Financial Administration Act*. Crown corporations are responsible for the debt servicing costs and repayments of principal for debt borrowed on their behalf by the government.

Fiscal Agency Loans to Crown Corporations — are assets of the government, being loans made with funds borrowed directly by the government for that purpose in accordance with the provisions of the *Financial Administration Act*. The liability arising from government borrowing on behalf of Crown corporations is matched by the assets created when the funds are loaned to Crown corporations.

Guaranteed Debt — consists of borrowings by government enterprises, local governments or others, for which the principal, premium, if any, and interest are guaranteed by the government. Funds borrowed by the government and reloaned to Crown corporations are not considered guaranteed debt.

Liabilities — are claims payable by the government to outside parties, including accounts payable for goods, services and grants, amounts due to Crown corporations, deferred revenue, direct debt for government purposes and fiscal agency debt on behalf of Crown corporations.

Net Equity (Net Deficiency) — net equity is the excess of financial assets over financial liabilities of the government at a specific date. A negative amount for net equity is referred to as net deficiency, and indicates that financial liabilities exceed financial assets. The surplus (deficit) for a particular accounting period causes a corresponding increase (decrease) in net equity.

Operating Transactions — include revenue and expenditure transactions of the government, reported in accordance with the modified accrual basis of accounting.

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[1] Further information regarding the terms used in the government's financial statements is available in the Public Accounts.

Other Assets — consist mainly of investments in long-term securities and loans and repayable advances made through various government programs.

Prepaid Program Costs — consist of payments disbursed prior to the year-end for program costs that will be incurred and recorded as expenditure in future years.

Revenue — consists of money earned by the government from taxation, resource levies, the sale of goods and services, fees and licences, fines and penalties, interest, liquor distribution profits and contributions arising from agreements with other governments. Under the modified accrual accounting policy of the government, revenue is reported when earned rather than when received, with the exception of taxes on income and federal contributions for Established Programs Financing which, except in cases of known adjustments, are reported when received because of the uncertainty involved in their estimation.

Surplus (deficit) — represents the excess of revenue over expenditure (expenditure over revenue) for a given period.

Trust Funds Under Administration — are funds held and administered by the government for third parties and not subject to appropriation by the Legislature. Included are trust deposits, superannuation and pension funds, sinking funds and miscellaneous trust funds.

Working Capital — consists of those assets and liabilities which are generally short-term in nature. Specifically, working capital is the sum of cash and temporary investments, amounts due from Crown corporations, prepaid program costs and inventories less the sum of accounts payable, amounts due to Crown corporations and deferred revenue.

Working Capital Transactions — are changes to the working capital items.

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A. Economic Outlook for British Columbia

Overview of 1985

In 1985 British Columbia's economy achieved its best performance since the 1981-82 recession, as real GDP increased an estimated 3.0 per cent from 1984 and employment rose by 2.2 per cent. This growth was a continuation of the moderate upward trend in output and employment which began in the second half of 1984, and was stronger than forecast in the 1985 Budget.

The economic recovery in British Columbia became more broadly based during 1985, spreading from the export industries, where it had been most evident in 1983 and 1984, to the domestic sector.

Employment for the year increased by 26,000, or 2.2 per cent, from 1984, with an increase of 18,000 jobs occurring in the service industries. The labour force increased by 21,000, or 1.5 per cent, and the unemployment rate fell from 14.7 per cent in 1984 to 14.2 per cent in 1985.

While employment growth was modest in comparison with pre-1981 trends, the gradual increase contributed to a 6.1 per cent increase in personal income. Higher incomes, in combination with lower interest rates during the year, contributed to an increase in spending by consumers. Real consumer spending rose by more than five per cent, while housing starts increased 11.1 per cent to 17,969 units. Tourism activity also showed improvement in 1985 due to increased visits from residents of both the United States and other provinces.

Exports also continued to contribute to growth as production of natural resources including lumber, coal, natural gas and electricity, increased. Production of pulp and paper also rose significantly from 1984 levels, which were affected by a 10-week labour dispute. Due to continuing abundant supplies, prices of most commodities remained quite low. Canadian dollar prices of lumber, copper and newsprint increased while prices of wood pulp, lead, zinc, natural gas and coal declined.

Oil and gas drilling activity registered an increase of 19.7 per cent in 1985. This was due to the effects of provincial royalty changes and the Western Accord energy agreement between the federal government and the western oil-producing provinces.

Investment spending increased modestly but remains well below its pre-recession level. According to Statistics Canada's public and private investment survey, construction spending was up slightly while spending on machinery and equipment increased 2.3 per cent.

Inflation showed further improvement, falling to 3.2 per cent in 1985 from 4.0 per cent in 1984. This is the lowest annual rate of increase since Statistics Canada began compiling the Vancouver Consumer Price Index in 1971. Inflation peaked at 14.3 per cent in 1981, before dropping to 10.5 per cent in 1982 and 5.5 per cent in 1983.

Wage settlements were 1.9 per cent in the public sector and 2.0 per cent in the private sector in 1985, for an average of 2.0 per cent, down from the 2.1 per cent average in 1984. Wage settlements reached 14.3 per cent in 1981, before falling to 9.5 per cent in 1982 and 3.7 per cent in 1983.

Also contributing to the better performance in 1985 was a decrease in worker-days lost due to labour disputes, which dropped to 165,000, down 80 per cent from 819,000 in 1984 and down 87 per cent from the annual average for 1979 to 1983.

The External Environment

The pace of growth in the United States economy slowed markedly in 1985. Although the value of the U.S. dollar started to depreciate against other currencies in March, the United States trade deficit continued to increase during the year. Real growth was only 2.3 per cent in 1985, compared to 6.6 per cent in 1984.

United States housing starts, which are a significant determinant of British Columbia lumber exports, were almost unchanged in 1985 at 1.74 million units. Lumber prices were unchanged from 1984 in U.S. dollar terms and moved in a narrower range than in previous years.

Real gross national product in the United States is forecast to increase 2.8 per cent in 1986 and 3.5 per cent in 1987. United States housing starts are expected to total 1.7 million in 1986 and 1.65 million in 1987.

The Japanese economy is expected to slow from growth of just under 4.5 per cent in 1985 to about three per cent in 1986. Appreciation of the yen will limit export growth, causing a slowdown in business investment, while the government's efforts to control the deficit may limit growth in domestic spending.

The rapid growth of the American economy in 1984 and the appreciation of the U.S. dollar contributed to an increase in U.S. imports from Europe. This has contributed to a modest expansion of the economies of Western Europe over the past two years. Stronger domestic growth in 1986 is likely to offset slower export growth due to exchange rate appreciation, so overall growth in Western Europe will average 3 per cent, similar to its recent performance.

The Canadian economy turned in a good performance during 1985 as real GNP rose 4.5 per cent, the highest growth rate of the major industrial countries. In 1985 the domestic sector became the main source of growth, in contrast to the export-led expansion of 1983 and 1984. Consumer spending experienced its largest rise since 1976, with significant increases occurring in purchases of automobiles, furniture, appliances, clothing and food. Housing activity rebounded from a dip in 1984, while business investment in machinery and equipment recovered from the sharp decline which occurred between 1981 and 1984.

The improvement in consumer spending and total investment is expected to continue in the first half of this year. Higher federal taxes will be a major factor causing a slowdown in the second half of the year. Overall the Canadian economy is forecast to grow 3.5 per cent in 1986 and 2.8 per cent in 1987.

British Columbia Outlook

The British Columbia economy is forecast to show further strength in 1986, with continued growth in consumer spending and the positive influence of Expo. While a slowdown can be expected in some sectors following Expo, increases in investment spending and modest growth in the resource sector should contribute to growth in 1987. The provincial economy is forecast to grow by 4 per cent in 1986 and 3 per cent in 1987.

Employment growth is forecast to exceed labour force growth in both 1986 and 1987, causing the unemployment rate to decline in both years. Expo 86 is expected to account for about one-third of the projected increase of 42,000 jobs in 1986.

Inflation, as measured by the change in the Vancouver Consumer Price Index, is expected to be slightly below the Canadian rate in 1986 for the fifth consecutive year. The depreciation of the Canadian dollar and recent increases in federal excise taxes will contribute to slightly higher inflation in 1986. Wage settlements are expected to remain slightly below the inflation rate.

The forecast 10.5 per cent increase in retail sales represents an increase of 6.8 per cent in real terms in 1986, up from 5.4 per cent in 1985. In 1987 retail sales are expected to increase 3.5 per cent in real terms. If consumers continue to draw down savings or if tourism spending is stronger than expected, retail sales growth could be higher than forecast.

Investment spending has weakened considerably since the onset of the 1981-82 recession and is not expected to exceed pre-recession levels until later in the decade. In view of the weakness in commodity markets, investment by resource firms is likely to emphasize improvements in efficiency and further processing, rather than additions to overall capacity. Housing starts are forecast to increase to 19,500 units in 1986 and 21,000 units in 1987. Total investment spending is projected to increase 8 per cent in 1986, provided that Canadian interest rates decline from current levels over the next several months.

The service sector is forecast to grow about four per cent in 1986. Wholesale and retail trade, transportation and personal service businesses, including hotels and restaurants, will show the strongest growth, reflecting spending by Expo 86 visitors.

Goods-producing industries are expected to grow about three per cent in 1986 with paper and allied industries and secondary manufacturing performing the best. Mining output will increase slightly due mainly to mine reopenings facilitated by the Commissioner of Critical Industries.

Risks to the Forecast

The outlook in the preceding section is the provincial government's assessment of the most probable course of events in 1986 and 1987. Thus, the numbers presented in Table A1 should be considered as midpoints of a range of likely outcomes. Unexpected external developments affecting the provincial economy could significantly influence the actual outcome for better or worse.

There are several downside risks. Interest rates have risen significantly in recent weeks as the Bank of Canada has taken actions to alleviate downward pressure on the Canadian dollar. Should these interest rates persist for several months, they would cause a slowdown in housing activity, investment and purchases of consumer durable goods. The effect could become particularly severe if, as some analysts suggest, interest rates rise in the United States later this year. However if interest rates do fall fairly quickly from current levels the effect on the British Columbia economy is likely to be minor.

The decline in the value of the Canadian dollar is likely to have some inflationary impact on the economy. Nevertheless, many analysts believe that inflation does not pose a serious threat over the next two years. Because wage settlements have been at a low level, it appears that the recent depreciation of the Canadian dollar will cause higher sales and an improvement in the province's competitive position rather than higher inflation.

A third risk affecting the current outlook is the impact of lower oil prices. While lower oil prices contribute to lower inflation and eventually should generate stronger growth in industrial countries, they could have serious repercussions for the international financial system because of the heavy indebtedness of some oil-producing countries. A shock to the international financial system could lead to a slowdown in bank lending and world trade, and a decline in world economic growth, with serious impacts on British Columbia exports. If the international financial system is able to adjust to lower oil prices without disruption, the net effect on the British Columbia economy would be slightly positive, although some industries and regions will be adversely affected.

A number of other developments could result in better-than-expected economic performance in British Columbia this year. One is the decline in the value of the U.S. dollar against other major currencies, which could cause increases in U.S. dollar-denominated commodity prices. If these occur, there would be a positive effect on corporate profits, wages and salaries, retail sales and other measures of economic activity in the province. The improved corporate cash flow would likely cause more investment.

North American interest rates could be lower than expected in the base forecast because of lower inflation or a drop in inflationary expectations. This is likely to cause higher growth in British Columbia both because provincial exports would increase and because lower interest rates would encourage more spending on consumer durables and housing and increased business investment in the province.

Finally Expo 86 could provide a greater stimulus to the provincial economy than currently forecast. The one-time nature of the event makes it difficult to estimate its economic impact. The economic forecast presented here assumes 13.75 million visits to the fair, a figure which may well be exceeded, judging by higher-than-expected advance ticket sales.

Conclusion

Although there are potential risks, the overall outlook for the British Columbia economy is for stronger growth in 1986 and continued, more moderate growth in 1987.

Table A1

British Columbia Economic Indicators

	1984	1985	1986f	1987f
Gross Domestic Product ($ million)	49,974	53,069e	57,178	61,366
(percentage change)	5.8	6.2	7.7	7.3
Real Gross Domestic Product (millions of constant 1971 dollars)	16,300	16,789e	17,461	17,985
(percentage change)	1.8	3.0	4.0	3.0
Capital Investment ($ million)	8,787	8,864	9,573	10,530
(percentage change)	−6.0	0.9	8.0	10.0
Housing Starts (units)	16,169	17,969	19,500	21,000
(percentage change)	−28.5	11.1	8.5	7.7
Retail Sales ($ million)	13,005	14,148	15,634	16,806
(percentage change)	6.1	8.8	10.5	7.5
Vancouver Consumer Price Index (1981 = 100)	121.3	125.2	129.6	134.6
(percentage change)	4.0	3.2	3.5	3.9
Population 15 and Over (thousands)	2,204	2,226	2,254	2,283
(percentage change)	1.8	1.0	1.3	1.3
Labour Force (thousands)	1,410	1,431	1,458	1,479
(percentage change)	1.5	1.5	1.9	1.4
Employment (thousands)	1,202	1,228	1,270	1,304
(percentage change)	0.4	2.2	3.4	2.7
Unemployment Rate (per cent)	14.7	14.2	12.9	11.8
Other Forecasts of Real Gross Domestic Product[1]			percentage change	
Conference Board of Canada		3.6f	4.6	1.3
Royal Bank of Canada		2.5f	2.8	3.0
Bank of Montreal		2.5-3.5f	3-4	n.a.
Bank of Nova Scotia		3.7f	3.5	n.a.

e Ministry of Finance estimate

f forecast

[1] All external forecasts are January or February 1986, except Royal Bank forecast which is November 1985

B. Revenue Measures

Table B1

Summary of Revenue Measures

	Effective Date	Revenue Effects 1986/87	1987/88	1988/89
		($ millions)		
Assessment Act				
Property tax on private land revised to encourage reforestation	September 30, 1987	0.0	−0.7	−3.0
Home Owner Grant Act				
Home owner grants for the handicapped extended to homeowners with handicapped resident relatives	January 1, 1986	−0.1	−0.1	−0.1
Income Tax Act				
Corporate tax rate reduced for corporations not eligible for the small business rate to:				
• 15 per cent	January 1, 1987	−2.0	−29.0	
• 14 per cent	January 1, 1988		−3.0	−64.0
Insurance Premium Tax Act				
Premium tax eliminated on insurance sold by companies with British Columbia head offices	January 1, 1987	−0.7	−4.0	−5.0
Land Tax Deferment Act				
Interest calculation changed to simple interest	April 1, 1986	*	*	*
Motor Fuel Tax Act				
Fuel tax rates not to increase above March 31, 1986 level during 1986/87	April 1, 1986	−0.9	0.0	0.0
Fuel tax rebates extended to a broader group of eligible handicapped drivers	March 21, 1986	−0.1	−0.1	−0.1
Marine bunker tax applied to all marine bunker fuels	March 21, 1986	+1.0	+1.0	+1.0
Small Business Venture Capital Act				
Eligible investments expanded to include export-oriented consulting companies in certain disciplines	On proclamation	0.0	−6.0	−6.0
Social Service Tax Act				
Special rules to ensure compliance of vendors at Expo 86	March 21, 1986	+1.0	0.0	0.0

* Less than $100,000

Table B1

Summary of Revenue Measures—*Continued*

	Effective Date	Revenue Effects 1986/87	1987/88	1988/89
		($ millions)		
Social Service Tax Act, Motor Fuel Tax Act, Hotel Room Tax Act				
Refund period extended from three to:				
• four years	April 1, 1987	−1.5		
• five years	April 1, 1988		−3.0	
• six years	April 1, 1989			−5.0
Total 1986 Revenue Measures		−3.3	−44.9	−82.2
Total 1985 Economic Renewal Taxation Measures[1]		−359.6	−512.8	−545.3
GRAND TOTAL		−362.9	−557.7	−627.5

[1] See Table B3 for details

SUPPLEMENTARY INFORMATION: REVENUE MEASURES

Assessment Act

Effective September 30, 1987, privately owned forest land will be assessed at the sum of the value of the land in its unforested state and the value which the logs cut during the preceding calendar year have on the open market. This property will then be taxed at rates approximating industrial taxes if reforestation is not taking place and at lower rates approximating farm taxes if significant reforestation activity is taking place.

Home Owner Grant Act

Effective January 1, 1986, homeowners who are housing a handicapped spouse, child, grandchild, parent, grandparent, brother or sister are eligible for the $250 supplementary Home Owner Grant.

Income Tax Act

The income tax rate paid by corporations not qualifying for the lower small business rate will be reduced from the current 16 per cent of corporate taxable income to 15 per cent effective January 1, 1987 and to 14 per cent effective January 1, 1988. The corporations primarily affected are those with more than $200,000 annual taxable income.

These decreases will make British Columbia's income tax rates competitive with other provinces, assisting larger corporations which operate in British Columbia as their profitability continues to improve over the next few years, and helping to attract new investment.

Insurance Premium Tax Act

Insurance premium tax is levied at a rate of 3 per cent on insurance premiums written in British Columbia, except for life, personal accident, sickness and loss of wages and salary insurance, which are taxed at 2 per cent.

This tax is being eliminated effective January 1, 1987 for insurance premiums written by companies which are certified as having head offices in British Columbia, to encourage development of the British Columbia insurance industry.

Land Tax Deferment Act

Effective April 1, 1986, interest on taxes deferred under the Land Tax Deferment Program will be calculated at a simple rate of interest on the balance of taxes deferred, not including accumulated interest. The rate may be adjusted up to twice a year at the discretion of the Minister of Finance but it will not exceed the prime interest rate minus two per cent. Initially, the interest rate will remain at 8.0 per cent.

Motor Fuel Tax Act

Tax Rates Capped at March 31, 1986 Rate

Tax rates levied under the *Motor Fuel Tax Act* will be no higher during the 1986/87 fiscal year than the rates in effect on March 31, 1986. It is expected that on April 1, 1986 rates would have increased but that, beginning with the July 1, 1986 adjustment, fuel tax rates will fall as a result of lower fuel prices. The following table shows the March 31, 1986 rates and the rates which would have applied April 1, 1986, had this measure not been taken:

	March 31, 1986 Rate (cents/litre)	Projected April 1, 1986 Indexed Rate (cents/litre)	Effect of Capping Rates (cents/litre)
Clear Gasoline	8.64	8.71	–.07
Clear Diesel	9.08	9.15	–.07
Aviation Fuel, Marked Gasoline, Marked Diesel, Propane and Butane	3.02	3.04	–.02
Marine Bunker Fuel	1.44	1.45	–.01

Rebates for Handicapped Drivers Extended

Handicapped individuals with a valid driver's licence, who own or lease a motor vehicle, are eligible for a full rebate of provincial motor fuel tax paid. The program will be extended, effective immediately, to all handicapped individuals with a valid driver's licence, who own or lease a motor vehicle, and have a medical practitioner's certification that they have a permanent impairment of locomotion to the extent that the use of public transport would be hazardous. All other eligibility criteria remain unchanged, ensuring that all those now eligible or those who would become eligible under the previous criteria will continue to benefit from the program.

Marine Fuels Taxed Consistently

Under the *Motor Fuel Tax Act*, some fuels commonly used to propel ships, such as marine diesel fuel when purchased outside the province and delivered on board ships within provincial boundaries and blends of marine bunker fuel of less than 20 centistokes viscosity, were not subject to tax. The legislation is being changed effective immediately to reflect the original intent that all fuel used to propel ships and delivered within the province be taxed at the appropriate rate.

Small Business Venture Capital Act

Investors in an approved small business venture capital corporation receive a credit against provincial income tax equal to 30 per cent of their investment. The capital raised by the venture capital companies must then be invested in eligible small businesses in British Columbia in the manufacturing and processing, research and development, tourism or aquaculture industries. The list of eligible small businesses will be expanded to include export oriented consulting companies, including professionals in various fields (engineering, forestry, agriculture).

Social Service Tax Act

The unique nature of Expo 86, with anticipated large volumes of sales made over a relatively short time period by transient vendors, requires special procedures to ensure proper tax collection. Tax returns will be required to be filed by Expo 86 vendors on a weekly basis, while a $10 commission per return will be paid at the end of the fair. Escalating penalties for late filing of returns will be implemented to encourage compliance.

Social Service Tax Act, Motor Fuel Tax Act, and Hotel Room Tax Act

The refund period under the *Social Service Tax Act* and *Motor Fuel Tax Act* is currently three years. Effective April 1, 1986 the refund period for taxes paid due to a mistake of fact will be increased in steps so that by April 1, 1989 it will be six years. Consistent with common law, there will be no refund for taxes paid due to a mistake of law.

Table B2

Summary of Administrative Measures

	Effective Date
Assessment Act	
Revised assessment of utility property, revised definition of improvements, and review of industrial assessment methodology	September 30, 1986
Clarification that property tax does not apply to mineral deposits	N/A
Supplementary assessments available for mobile homes relocated after September 30 but before December 31 of any year	September 30, 1986
Newly leased Crown land not to be assessed in the first partial year of the lease	January 1, 1987
Horse Racing Tax Act	
Clarification that the horse racing tax applies to all betting at tracks, including separate pool betting	March 21, 1986
Logging Tax Act and Mining Tax Act	
The assessment time limit reduced to five years	March 21, 1986
Taxpayers permitted to waive the assessment time limit	March 21, 1986
Social Service Tax Act	
Minister of Finance empowered to determine market lease prices for social service tax purposes	March 21, 1986
The Commissioner given authority to set conditions at the time of the registration of a vendor where evidence exists of a risk of non-compliance	March 21, 1986
Social Service Tax Act and Hotel Room Tax Act	
Taxpayers permitted to appeal disallowed refunds to the Minister of Finance	March 21, 1986

SUPPLEMENTARY INFORMATION: ADMINISTRATIVE MEASURES

Assessment Act

Utility Property Tax Simplification

Effective September 30, 1986, property taxes on utility property will be simplified by extending the application of average market values for each kilometre of distance, now used to determine assessed values for pipelines, railroads and telegraph lines, to electrical, trolley coach and telephone lines and to rights of way for all these utilities.

Definition of Improvements

Effective September 30, 1986, the definition of improvements subject to assessment and property tax will be simplified to more clearly describe those properties which are to be assessed.

Industrial Property Tax Simplification

Provision is being made for a simplified approach to the assessment of industrial property, subject to the receipt of a report on the subject by a special technical committee composed of British Columbia Assessment Authority, industry and municipal representatives.

Exemption of Mineral Deposits

Effective for the 1987 taxation year, the *Assessment Act* is being amended to more clearly stipulate that the value of mineral deposits is not subject to taxation for municipal, school and other related purposes.

Supplementary Assessment of Mobile Homes

Effective September 30, 1986, mobile homes which are moved between September 30 and December 31 of any year will be assessed and taxed on the basis of their location on December 31, rather than September 30 as currently required.

Assessment of Newly Leased Crown Land

Effective for the 1987 taxation year, newly leased property belonging to the Crown in a rural area will not be assessed or taxed in the first partial taxation year of the lease.

Horse Racing Tax Act

A tax of 7 per cent is levied on all pari mutuel betting on horse racing in British Columbia. Recently, betting on horse races being run in other locations was implemented at some British Columbia racetracks. This is known as "separate pool betting". The intent of the legislation is to tax all bets placed at British Columbia racetracks on horse races, no matter where the race that is the subject of the betting is run. The legislation is being amended to clarify that tax will continue to be collected on "separate pool betting".

Logging Tax Act and Mining Tax Act

Assessment Time Limit

Effective immediately, the time limit for assessing taxes payable under the logging tax and the mining tax is reduced from six to five years. For both taxes, the calculation is based upon taxable income under the *Income Tax Act* (Canada). The assessment period for income taxes was reduced from four years to three years in 1985. The reduced assessment period for logging and mining tax will still allow the Commissioner of Income Tax time to review income tax assessments, while reducing the uncertainty of taxpayers by shortening the time during which they are subject to assessment.

Waiver of Assessment Time Limit

Taxpayers may file a waiver requesting that the assessment time limit be set aside for federal income tax purposes, if they believe that a refund of taxes may be forthcoming. There will now be a parallel provincial provision for logging tax and mining tax. The ability to file a waiver will ensure that taxpayers are not deprived of provincial refunds based upon federal assessments made after the assessment time limit.

Social Service Tax Act

Valuation of Leases

Currently, the Minister of Finance may make a valuation of tangible personal property sold and thereby determine the purchase price upon which social service tax is due. Effective immediately a parallel provision is being added to the Act in respect of lease prices.

Conditions on Registration of High Risk Vendors

Effective immediately, the Commissioner under the *Social Service Tax Act* will have the authority to set conditions on the registration of vendors where there is evidence of considerable risk that taxes collected or due from purchasers may not be remitted to the provincial government. Conditions will include posting a bond or pledging security. This measure will assist in the collection of taxes which are considered to be trust funds under the legislation.

Social Service Tax Act* and *Hotel Room Tax Act

Current administrative practice is to permit taxpayers' appeals of refunds to the Minister of Finance but no legislative provision exists for this practice. Effective immediately, these statutes will be amended to provide that applications for refunds which are disallowed may be appealed to the Minister by the taxpayer.

Table B3

Summary of 1985 Economic Renewal Taxation Measures

The following table summarizes the revenue and expenditure effects of economic renewal taxation measures undertaken in the 1985 budget.

	Revenue Effects 1986/87	1987/88	1988/89
		($ millions)	
Corporation Capital Tax Act			
Corporation Capital Tax phase-out, except for major banks with head offices outside of British Columbia	−40.0*	−60.0	−90.0
Motor Fuel Tax Act			
Reduction of aviation fuel and coloured fuel tax rates to 7 per cent of the pre-tax selling price	−55.0*	−57.0*	−62.0
Income Tax Act			
Small Business Employment Tax Credit[1]	−44.0*	−68.0*	−38.0
Venture Capital Tax Credit	−10.0*	−10.0*	−10.0
Property Taxation *(Assessment Act, British Columbia Transit Act, Expo 86 Corporation Act, Municipal Act, Education (Interim) Finance Act, Provincial-Municipal Partnership Act, Provincial-Municipal Partnership (Taxation Measures) Act, Taxation (Rural Area) Act)*			
Phase-out of property tax on machinery and equipment, including no assessment of new machinery and equipment after September 30, 1984	−125.7	−168.8	−177.0
Reduction of non-residential school property tax rates to a 2:1 non-residential/residential tax ratio	−41.3	−87.0	−90.0
Provincial-municipal partnership property tax reductions for new industrial improvements	−2.0	−5.0	−10.0
SkyTrain and Expo 86 exempted from property tax	−8.0	−8.8	−5.0
Specified recreational property added to Class 8 designation, manure storage facilities exempted and non-profit occupiers of school buildings exempted	−1.3	−1.3	−1.3
Social Service Tax Act			
Social Service Tax exemptions provided for sandpaper, jigs, dies, printing supplies, aquaculture items, propane and natural gas used for grain drying and returnable milk bottles. Also, temporary use provisions for exploration equipment and tax reduction for portable buildings	−3.8	−3.9	−4.0
Water Act			
Water rental rates frozen for five years	−28.5	−43.0	−58.0
Total Impact of 1985 Economic Renewal Taxation Measures	−359.6	−512.8	−545.3
Allocation of Economic Renewal Taxation Measures:			
Revenue Reduction, Consolidated Revenue Fund	−181.3	−241.9	−262.0
Expenditure Increase, Consolidated Revenue Fund Recoveries re: Non-Residential School Property Tax	−178.3	−270.9	−283.3
Total	−359.6	−512.8	−545.3

* Estimate adjusted since 1985 budget.

[1] The $150 million cost of the program in two taxation years will be spread over three fiscal years because of arrangements with the federal government pursuant to the Tax Collection Agreement.

C. The Funds for Health Improvement and Excellence in Education

Introduction

The government will combine a stable three-year funding base for health and education services with special three-year funding increases to maintain necessary services and build excellence in schools, colleges and universities, and in hospitals and other health care facilities.

Two special Funds have been established: a Fund for Excellence in Education, with a three-year allocation of $600 million; and a Health Improvement Fund, with a three-year allocation of $720 million. These are minimum commitments. If the economy expands sufficiently, they will be increased.

Themes

In developing this program, the government has identified five common themes: stabilizing base funding, encouraging local initiative, improving quality of service, responding to economic and population changes, and increasing productivity.

Stabilizing Base Funding

Underpinning both Funds is a commitment to stable base funding for three years. British Columbia's publicly supported education and health care institutions will benefit by knowing their budgetary framework well in advance. They will be able to plan the most effective use of base funding, and to bring forward their proposals to access the special Funds in the context of a long-term strategy. In this way, the institutions will be able to make the maximum contribution to the social and economic well-being of British Columbians.

Incremental Spending

The Funds will finance two types of incremental spending. They are:

- Adjustments to operating budgets of school boards, colleges, universities, hospitals and other health care providers; and
- Special initiatives to improve the quality of teaching and research, and innovative approaches to providing quality health care.

Local Initiative

The incremental funding is to be allocated on a competitive basis. Local trustees, boards and officials will be responsible for initiating proposals, possibly in partnership with private industry, employee associations and other community groups. The maximum possible degree of local consensus will be sought. The government will provide guidance to assist in developing proposals and will evaluate and fund specific proposals on a competitive basis according to defined criteria and priorities.

Improving Quality

The principal objective of incremental funding will be to enhance the health care and education systems. This includes upgrading and expanding existing services, redeployment of resources to more successful programs, and introduction of new services.

Economic and Population Changes

The economy requires increasing numbers of well educated workers, placing new demands on the education system. In responding, it will be important not only to supply appropriate programming, but also to encourage the best students to participate. The health system faces new pressures due to costly medical advances and to population growth, especially in the older age groups.

Education proposals should be consistent with the provincial economic strategy of providing support for the basic resource industries while encouraging development of new manufacturing industries, the service sector and emerging information and knowledge-based industries.

Health proposals should focus on promoting and maintaining health, improving hospital productivity, and providing service on an out-patient and home care basis.

Productivity and Efficiency

Initiatives that reward productivity increases will be encouraged. At the same time, the need to fund certain cost pressures is recognized. However, it is expected that institutions will propose measures to stretch those dollars, for example, through targeted merit bonuses, and by investing in cost-reducing technologies.

Use of the Funds

The two Funds must be used with prudence and imagination. The level of funding has been limited by the reality that government revenues are recovering only slowly. Accordingly, those consulted will have to make choices and set priorities. Nevertheless, the government believes that by setting a three-year planning framework and by encouraging the health care and education communities to develop innovative approaches, it will be possible to meet the objectives of maintaining services and building excellence.

The Health Improvement Fund

The health care system faces difficult challenges in adapting to population shifts, changing expectations and new technology. The Health Improvement Fund will allow the system to address these challenges.

The government is committing $720 million to this Fund over a three-year period, tentatively allocated as follows:

	1986/87	Total
	($ millions)	
Health Improvement Fund	120	720

Allocations will be provided from an account established under the *Health Improvement Appropriation Act.*

Provision for increased levels of funding in the second and third years reflects the expectation that new services and funding pressures will be identified in each year of the program.

The Health Improvement Fund will address the Fund themes in the following ways.

Local Health Initiatives

The Ministry of Health will encourage hospital boards, health professionals and community groups to develop innovative proposals.

Quick decisions will be made on a number of pressing needs, in order to assist hospitals in making immediate operating decisions.

Target Service Areas

Several areas have been identified for possible funding. In order to improve the quality of hospital care, additional funding could be provided for greater numbers of transplants, new drugs, advanced cancer treatment and AIDS therapy. In conjunction with new procedures and therapies, funding could be provided to open and operate new hospital beds.

Preventive programs to keep people from becoming ill in the first place will be a high priority, as will care programs that enable patients to be treated outside a hospital setting.

Coping With Growing Demand

Increases in population, especially in the older age groups, are creating new pressures on the health care system. Proposals which address this pressure are invited, particularly ones which present new approaches and emphasize home care and out-patient services. Ideas which will reduce utilization through new preventive measures are encouraged.

The Fund for Excellence in Education

The government has committed $600 million over three years to the Fund for Excellence in Education, tentatively allocated as follows:

	1986/87	Total
	($ millions)	
Excellence in Education Fund	110	600

Allocations will be provided from an account established under the *Education Excellence Appropriation Act.*

It is expected that new programs and funding needs will be identified each year. To accommodate this, the government has provided for increasing amounts of funding in the second and third years of the Fund.

Schools, colleges and universities each have their special needs, which the Fund will address. Three related but distinct sets of goals have been established for these institutions.

Goals for Schools

- To give our young people the standard of education and training required to meet the challenge of a changing economy, and to foster the spirit of entrepreneurship.
- To help teachers update and broaden their knowledge and improve their teaching skills.
- To upgrade equipment and instructional materials.
- To incorporate greater computer use on an educationally sound basis and as an aid to productivity.
- To improve student learning, with particular emphasis on language training, and to improve the environment for learning, with particular emphasis on measures to detect and prevent child abuse.

Goals for Colleges and Institutes

- To create knowledge and skills to support established and emerging industries, especially in the service sector, to foster the entrepreneurial spirit, and to assist in the transition from training to work.
- To provide the technological and entrepreneurial edge to maintain the competitiveness of our basic resource industries.
- To encourage support from private industry, including not only financial support but also advice and expertise, and to promote cooperative education.
- To assist and encourage instructors to update and broaden their knowledge and improve their teaching skills.
- To enable all students who would profit from a higher education to pursue that goal if they choose, and to encourage the best students to make that choice.
- To upgrade equipment and instructional material.

Goals for Universities

- To create knowledge and skills to support emerging industries, especially in the service sector. Priority areas include biotechnology, micro-electronics, computing science, international business and finance, and cultural industries.
- To provide the technological and entrepreneurial edge to maintain the competitiveness of our basic resource industries.
- To encourage support from private industry, including not only financial support but also advice and expertise, and to promote cooperative education and joint research ventures.
- To promote the highest standards of scholarship.
- To enable all students who would profit from a university education to pursue that goal if they choose, and to encourage the best students to make that choice.
- To upgrade equipment and materials for teaching and research.

D. Provincial Government and Crown Corporation Financing

Introduction

The provincial government and its Crown corporations and agencies incur debt to finance government operations and capital projects. The growth rate of total government debt, including guaranteed debt, was reduced in the year ending March 31, 1986 to 5.8 per cent from 9.7 per cent in the previous year, and is forecast to be further reduced to 4.5 per cent in 1986/87. This follows a period of more rapid increases in the early 1980's.

The increase in debt between 1980 and 1985 was mainly incurred to fund capital expenditure by British Columbia Hydro and Power Authority ($3.2 billion), social capital projects such as schools, post-secondary institutions and hospitals ($0.9 billion), capital expenditure by British Columbia Transit ($0.6 billion) and operating deficits of the provincial government ($2.2 billion).

Net direct and guaranteed debt of the provincial government increased from 24.5 per cent of provincial gross domestic product in 1980 to 32.0 per cent at March 31, 1985. Nevertheless, British Columbia government debt compares favourably to that of other provincial governments in Canada. In terms of total net debt in relation to gross domestic product (GDP), British Columbia is below the average for all provinces, and excluding self-supporting debt of public utilities and other commercial Crown corporations, British Columbia net debt in relation to GDP is the second lowest among all provinces.

At March 31, 1986, net direct and guaranteed debt of the provincial government is expected to total $16.9 billion, for an increase of 5.8 per cent from the previous year. During 1986/87 gross borrowing requirements of the provincial government and provincial Crown corporations and agencies are expected to be $1,482 million, down 19.7 per cent from $1,845 million borrowed in 1985/86, and down 36.3 per cent from $2,325 million borrowed in 1984/85.

After deducting debt repayments of $299 million and sinking fund contributions and earnings of $421 million, the increase in net debt of the provincial government and Crown corporations and agencies is estimated at 4.5 per cent for 1986/87. At March 31, 1987, net debt outstanding is expected to total $17.7 billion, equal to 30.9 per cent of gross domestic product. This represents a decline of 1.1 percentage points from March 31, 1985.

Financing Process

The provincial government issues direct debt for government purposes to finance its operations and meets all costs associated with this debt from the Consolidated Revenue Fund. Direct debt incurred for government purposes is expected to total $3.3 billion at March 31, 1986 and to increase to $4.1 billion by March 31, 1987.

Crown corporations and agencies have employed two methods to borrow funds for capital projects. Under the first method, used exclusively until 1983, the corporation or agency borrows in its own name with a provincial government guarantee of the payment of principal, premium and interest. Net guaranteed debt is expected to total $11.7 billion at March 31, 1986 and to decline to $11.2 billion by March 31, 1987. During 1986/87 debt repayments and increases in sinking fund balances are expected to more than offset new issues of guaranteed debt.

The issuance of new guaranteed debt has been reduced significantly since the amendment in 1983 of the *Financial Administration Act* to authorize the provincial government to undertake direct borrowing for the purpose of relending the proceeds to Crown corporations and agencies. This method of financing, known as fiscal agency borrowing, has been used increasingly in the last three years because relatively small financing requirements of several entities can be consolidated into one debt instrument issued on more favourable terms. Net fiscal agency debt is expected to total $1.9 billion at March 31, 1986 and to increase to $2.4 billion by March 31, 1987.

Regardless of the borrowing method, financing costs and repayment of borrowings remain the responsibility of the Crown corporation or agency. In certain cases the provincial government provides a contribution to cover all or a part of debt service costs.

It is current government policy to require the establishment of sinking funds for all debt with a term in excess of five years, in order to provide for orderly repayment of the debt at maturity.

Table D1

Structure of Provincial Government Net Debt

As at March 31	Actual 1985	Revised Forecast 1986	Estimate 1987
		($ millions)	
Direct debt incurred for government purposes	2,475.9	3,275.9	4,075.9
Fiscal agency debt incurred on behalf of Crown corporations	1,315.8	1,920.4	2,410.9
Guaranteed debt	12,207.4	11,737.0	11,207.9
Total	15,999.1	16,933.3	17,694.7
Percentage increase	9.7	5.8	4.5

Composition of 1986/87 Borrowing and Debt

Gross borrowing requirements for provincial government purposes are estimated at $872 million during 1986/87. After deducting debt maturities and increases in sinking fund balances, the net borrowing requirements are $800 million. Debt incurred for government purposes is forecast to reach $4.1 billion, or 23 per cent of total direct and guaranteed debt outstanding at March 31, 1987.

Commercial Crown corporations, which include British Columbia Hydro and Power Authority, British Columbia Petroleum Corporation, British Columbia Place and British Columbia Railway Company, generate revenue from the sale of services at commercial rates and pay all of their own operating expenses, including debt service charges. Gross requirements of $337 million for these Crown corporations are expected to be more than offset by debt maturities and increases in sinking fund balances. As a result, net debt of commercial Crown corporations is expected to decline slightly to $9.3 billion, or 53 per cent of total net debt outstanding at March 31, 1987.

Economic development Crown corporations and agencies include the British Columbia Ferry Corporation, British Columbia Development Corporation, British Columbia Housing and Employment Development Financing Authority, British Columbia Transit and Expo 86 Corporation. These corporations are generally operated as commercial corporations, but in some cases do not generate sufficient financial return to service their debt. Because these corporations and agencies provide economic benefits to the province, the government may provide grants or other forms of assistance. During 1986/87, the total requirements of economic development Crown corporations are expected to be only $42 million, because expected repayments of short-term debt by Expo 86 Corporation will almost offset the requirements of other economic development Crown corporations. Net debt of economic development Crown corporations and agencies is expected to increase slightly to $1.7 billion or 9 per cent of total net debt outstanding at March 31, 1987.

The remaining Crown corporation and agency debt has been used to fund social and government services capital projects. Financing authorities, which provide funds for the construction of hospitals, schools, and post-secondary institutions, comprise the largest component in this category. Debt service requirements are met through provincial grants or rental payments and, for schools and hospitals, partly from local levies. During 1986/87 gross requirements of $231 million are expected to be matched by debt maturity payments and increases in sinking fund balances. As a result net debt for social and government services capital projects is expected to remain at $2.7 billion, or 15 per cent of total net debt outstanding at March 31, 1987.

Table D2

Financing Plan, 1986/87

	Forecast Net Debt Outstanding at March 31, 1986[1]	1986/87 Transactions		Forecast Net Debt Outstanding at March 31, 1987
		New Borrowing[2]	Less Repayment Provision[3]	
	($ millions)			
PURPOSES:				
Government	3,276	872	72	4,076
Crown Corporations				
Commercial	9,342	337	383	9,296
Economic Development	1,644	42	33	1,653
Social and Government Services	2,736	231	232	2,735
Total	16,998	1,482	720	17,760
Less: Amounts held by General and Special Funds	65	—	—	65
TOTAL	16,933	1,482	720	17,695
SOURCES:				
Canada Pension Plan Investment Fund	4,208	107	51	4,264
Trusteed Funds	3,926			
Treasury Bills	780			
Private Issues	1,729	1,375	248	15,740
Public Issues	8,178			
Total Before Sinking Funds	18,821	1,482	299	20,004
Sinking Funds	1,888	—	421	2,309
TOTAL	16,933	1,482	720	17,695

[1] Estimated. Fiscal agency debt of the government which has been reloaned to Crown corporations is shown as Crown corporation debt.

[2] Gross new long-term borrowing plus net change in short-term debt.

[3] Sinking fund contributions, sinking fund interest earnings and net maturities of long-term debt (after deduction of sinking fund balances for maturing issues).

Sources of Funds

Funds borrowed to date have been derived in almost equal proportions from internal and external sources. Internal sources comprise the Canada Pension Plan Investment Fund and provincial Trusteed Funds, while external sources include private institutional lenders and public financial markets.

Borrowings from the Canada Pension Plan Investment Fund have been used mainly to finance social capital projects such as schools and hospitals.

Provincial Trusteed Funds, the second source of internal financing, include the provincial public sector pension funds and the sinking funds of provincial government Crown corporations and agencies. Until 1980 these funds were invested primarily in long-term debt of Crown corporations and agencies. In 1980 a decision was made to broaden the asset mix of the trusteed funds, resulting in less financing being made available to Crown corporations and agencies from this source.

Most of the externally-provided funds have been obtained through medium and long-term debt issues in public capital markets. Public issues have been undertaken in Canadian, United States and European markets, in either Canadian or U.S. dollars. To a lesser but nonetheless significant extent, private placements have been a source of medium and long-term funds. As in the case of public issues, the ultimate liabilities on all private placements are payable in either Canadian or U.S. dollars.

Short-term debt instruments have also become an important source of funds for both the provincial government and its agencies. A weekly Treasury Bill auction is used for government purposes, and commercial paper has been issued for periods ranging from one day to one year, to provide funds for government purposes and Crown corporations and agencies.

The government raises funds through a variety of debt instruments, depending upon financial market conditions and to meet the objective of minimizing costs, subject to an appropriate portfolio mix. The terms of the instruments are selected to match the expected life of assets acquired with the proceeds of the issue, to meet future repayment schedules for existing debt, and to ensure that risks associated with interest rate fluctuations are limited as far as possible.

Conclusion

During the early 1980s net direct and guaranteed debt of the provincial government increased significantly, but since 1984/85, the financing requirements of the provincial government and Crown corporations have declined. Net debt expressed as a percentage of provincial gross domestic product is expected to decline from its peak level of 32.0 per cent at March 31, 1985 to 30.9 per cent at March 31, 1987.

E. Interim Financial Statements

Interim financial statements for the ten-month period from April 1, 1985, to January 31, 1986, have been prepared by the Comptroller General in accordance with the *Financial Administration Act*. The interim financial statements are summarized below.

For the ten months ended January 31, 1986, the deficit on a combined funds basis (Consolidated Revenue Fund) was $723.8 million. This comprised a deficit of $802.4 million for the General Fund and a surplus of $78.6 million for Special Funds.

On a combined funds basis, revenue for the ten months was $6,870.9 million and expenditure was $7,594.7 million.

The major sources of revenue for the ten months were as follows:

- taxation revenue of $3,992.3 million, including $1,749.7 million from personal income tax, $321.8 million from corporation income tax and $1,234.2 million from social service tax;
- natural resource revenue of $594.2 million, including $245.6 million for petroleum and natural gas, $53.4 million for minerals, $113.6 million for forests and $172.6 million for water rentals;
- Liquor Distribution Branch income of $340.0 million; and
- contributions from the federal government of $1,472.6 million, including Established Programs Financing contributions of $895.0 million and Canada Assistance Plan contributions of $490.2 million.

The major expenditures for the ten months were for the following ministries:

- Ministry of Health — $2,207.9 million;
- Ministry of Human Resources — $1,226.9 million;
- Ministry of Education — $1,216.7 million;
- Ministry of Transportation and Highways — $931.7 million; and
- Ministry of Forests — $313.9 million, which was $54.5 million above the full year budget appropriation for 1985/86 due to significantly higher than expected forest fire suppression costs during the first half of the fiscal year.

The interim financial statements report actual revenue and expenditure for the first ten months of 1985/86, but do not include a revised forecast for the 1985/86 fiscal year.

The 1985/86 budget estimate for the full year deficit was $890.0 million. The deficit for the full year is now expected to be $948.0 million, which is $224.2 million higher than the interim ten-month deficit. In the last two months of the year, revenue is expected to be adversely affected by negative adjustments relating to previous years for corporation income tax. Also, significantly higher expenditure is expected for the Ministry of Transportation and Highways in the last two months.

Details of the revised forecast for 1985/86 are presented in the budget tables.

F. Economic and Financial Tables

Table F1
General Economic Indicators

	Unit or Base Period	1982	1983	1984	1985
Demographics:					
Population	June 1	2,791,100	2,820,600	2,865,100	2,892,500
Public school enrollment	September 30	500,336	497,312	491,085	486,692
Labour force	thousands	1,370	1,389	1,410	1,431
Employment	thousands	1,204	1,197	1,202	1,228
Unemployment rate	per cent	12.1	13.8	14.7	14.2
Main Economic Indicators:					
Provincial gross domestic product	$ millions	44,459	47,238	49,974	53,069[1]
Capital investment (new and repair)	$ millions	13,047	12,565	12,189	12,289
Retail sales	$ millions	11,766	12,257	13,005	14,148
Automobile sales	$ millions	677	759	891	1,087[1]
Housing starts	dwelling units	19,807	22,607	16,169	17,969
Value of building permits	$ millions	2,161	2,238	2,004	2,120[1]
Incomes:					
Personal income	$ millions	38,591	40,523	42,338	44,921[1]
Wages and salaries	$ millions	22,732	23,293	23,571	24,924
Average weekly earnings	$	n.a.[2]	423	429	442
Prices:					
Consumer price index, Vancouver	1981 = 100	110.5	116.6	121.3	125.2
Commodity price index[3]	1980 = 100	76.6	86.3	89.7	84.8
Financial Indicators:					
Business incorporations	total	11,432	13,787	14,052	15,639
Business bankruptcies	total	1,042	1,279	1,477	1,331
Value of shares traded (Vancouver Stock Exchange)	$ millions	1,559	3,963	2,233	2,719
Personal savings deposits at chartered banks	$ millions	14,258	14,412	14,809	16,054[1]
Sector Indicators:					
Value of manufacturing shipments	$ millions	15,690	16,892	17,647	19,062
Timber scaled	thousand cubic metres	56,230	71,443	74,557	76,868
Lumber production	thousand cubic metres	23,856	30,773	30,884	33,044
Pulp and paper production	thousand tonnes	6,664	7,730	7,276	8,349
Gross value of mineral production	$ millions	2,797	2,857	3,355	3,465
Petroleum and natural gas production	$ millions	913	899	998	1,067
Power generation (net)	million kilowatt hours	48,238	47,213	52,369	59,126
Farm cash receipts	$ millions	942	899	962	972
Foreign visitor entries	thousands	3,580	3,817	3,909	4,164

[1] Ministry of Finance estimate.
[2] Not comparable to subsequent years.
[3] The *Economist* index converted to a Canadian dollar basis.

Table F2
Comparative Provincial Tax Rates, March 1, 1986

Tax	British Columbia	Alberta	Saskat-chewan	Manitoba	Ontario	Quebec	New Brunswick	Nova Scotia	Prince Edward Island	New-foundland
Personal income (per cent of basic federal tax)[1]	44	43.5	50	54	50	(2)	58	56.5	52.5	60
Corporation income (per cent of taxable income)[3]										
General rate/m&p*	16**	11/5	16	16	15.5/14.5	5.5	15	15	10	16
Small business rate/ m&p*	8	5/0	10/0	10	10	3	5	10	10	10
Corporation capital (per cent of taxable paid up capital)[4]										
Non-financial corporations	0.2	*Nil*	0.3	0.2	0.3	0.45	*Nil*	*Nil*	*Nil*	*Nil*
Trust companies	0.6	*Nil*	0.8	0.6	0.6	0.9	*Nil*	*Nil*	*Nil*	1.5
Banks	0.8/2.0	*Nil*	2.0	1.9	0.8	0.9	*Nil*	*Nil*	*Nil*	1.5
Insurance premiums (per cent)[5]	3**	2	3	3	3	3	3	3	2	3
Gasoline[6]										
Per cent of retail price	20	*Nil*	*Nil*	N/A	N/A	30	20	20	20	22
Cents per litre	8.64	*Nil*	*Nil*	8.9	8.3	13.65	9.8	9.7	10.3	11.7
Diesel fuel[6]										
Per cent of retail price	N/A	*Nil*	*Nil*	N/A	N/A	30	23	21	23	26
Cents per litre	9.08	*Nil*	*Nil*	9.2	9.9	12.45	10.0	9.8	11.7	13.9
Retail sales										
General rate (per cent)	7	*Nil*	5	6	7	9	11	10	10	12
Liquor (per cent)[7]	7	*Nil*	10	12	12	9	11	10	37.5	12
Meals (per cent)[8]	7	*Nil*	*Nil*	6	7	10	11	10	10	12
Accommodation (per cent)	7	*Nil*	5	6	5	*Nil*	11	10	10	12
Tobacco (cents per package of 25 cigarettes)[9]	86	37	77	77.5	67.5	113	94	60	37.5	119.5

*Tax rate on manufacturing and processing income.

**The following changes were made in the March 20, 1986 British Columbia budget:

- the general corporation income tax rate will be reduced to 15 per cent, effective January 1, 1987, and to 14 per cent, effective January 1, 1988;
- the insurance premiums tax will be eliminated on premiums written by companies certified as having head offices in British Columbia, effective January 1, 1987.

[1] British Columbia has a 10 per cent surtax on provincial tax in excess of $3,500, plus an additional 8 per cent health care maintenance surtax applied to the sum of provincial tax and the 10 per cent surtax (if applicable). Saskatchewan has a 12 per cent surtax on provincial tax in excess of $4,000, plus a 1 per cent flat rate surtax on net income. Manitoba has a 20 per cent surtax on provincial tax in excess of $2,600. Ontario has a 3 per cent surtax of basic Ontario income tax exceeding $5,000. Alberta, Saskatchewan, Manitoba and Ontario also reduce provincial tax payable at low income levels through application of tax reduction or tax credit measures.

[2] Quebec levies its own personal income tax and, therefore, the tax is not presented as a percentage of federal tax.

[3] In British Columbia, a refundable small business employment tax credit equivalent to $300 per employee is payable to corporations for their first two taxation years commencing after March 31, 1985. The Ontario manufacturing and processing rate also applies to taxable income from mining, logging, farming and fishing operations. Newly incorporated Ontario small businesses are exempt from tax in their first three years of incorporation. In New Brunswick, the 5 per cent rate applies to firms with less than $110,000 income, 9 per cent applies to firms with less than $200,000 income and 15 per cent to larger firms.

[4] British Columbia corporation capital tax is being phased out over three years (by April 1, 1987) for all corporations except large banks with headquarters located outside of British Columbia.

[5] Tax is payable by the insurer. In British Columbia, Saskatchewan, Manitoba, Ontario, Quebec, New Brunswick and Nova Scotia, life, sickness and accident insurance premiums are taxed at 2 per cent and all other premiums are taxed at 3 per cent. In Newfoundland (excluding marine insurance) and Quebec (excluding individual life, sickness and personal injury insurance), insurance premiums are also subject to sales tax. Most provinces levy an additional tax of 1 per cent or less on fire insurance premiums to fund the office of the provincial fire commissioner.

[6] Tax rates apply to regular leaded gasoline and to diesel fuel used on highways. In British Columbia, the tax on diesel fuel is equal to the tax on gasoline plus 0.44 cents per litre. In Quebec, the gasoline and diesel tax rate in restricted outlying regions is 20 per cent. Six provinces (British Columbia, Quebec, New Brunswick, Nova Scotia, Prince Edward Island and Newfoundland) adjust tax rates periodically, depending on fuel price fluctuations. Manitoba and Ontario set tax rates annually in their budgets.

[7] Liquor served in commercial establishments is taxed at 13.4 per cent in Quebec, and 10 per cent in Ontario. In Prince Edward Island, liquor is taxed under the *Health Tax Act* at 25 per cent and under the *Revenue Tax Act* at 10 per cent, resulting in a compound tax rate of 37.5 per cent.

[8] A basic exemption for low priced meals exists in most provinces. In British Columbia, meals less than $7.00 are exempt from tax.

[9] In British Columbia, the tax on cigarettes is indexed to reflect changes in the retail price. In Quebec and New Brunswick, set rates are applied to a determined retail price. Other provinces tax cigarettes by amounts which cannot be adjusted without legislative amendment. Tobacco products are also subject to retail sales tax in Prince Edward Island (about 25.5¢/pack), Newfoundland (about 37¢/pack) and Ontario (about 18.5¢/pack).

Table F3

Financial Transactions
Consolidated Revenue Fund

	Actual 1982/83	Actual 1983/84	Actual 1984/85	Revised Forecast 1985/86	Estimate 1986/87
	($ millions)				
Financial Requirements:					
Operating Transactions:					
Revenue	6,529.1	7,344.3	7,789.9	8,175.0	8,768.0
Expenditure	7,513.3	8,356.4	8,783.8	9,123.0	9,643.0
Surplus (Deficit)	(984.2)	(1,012.1)	(993.9)	(948.0)	(875.0)
Net Receipts from (Disbursements for) Financing Transactions	(78.0)	(18.2)	27.1	16.0	(41.0)
Net Receipts from (Disbursements for) Working Capital Transactions and Fiscal Agency Loans	(187.3)	241.8	84.2	90.0	55.0
Total Direct Financial Requirements	(1,249.5)	(788.5)	(882.6)	(842.0)	(861.0)
Financial Sources:					
Net Direct Borrowing for Government Purposes	700.0	713.0	879.8	800.0	800.0
Decrease in Cash and Temporary Investments	549.5	75.5	2.8	42.0	61.0
Total Direct Financial Sources	1,249.5	788.5	882.6	842.0	861.0
Debt at Year End:					
For Government Purposes	883.1	1,596.1	2,475.9	3,275.9	4,075.9
For Crown Corporation Purposes:					
Fiscal Agency Debt	—	237.8	1,315.8	1,920.4	2,410.9
Guaranteed Debt	11,426.8	12,755.1	12,207.4	11,737.0	11,207.9
Total Crown Corporation Debt at Year End	11,426.8	12,992.9	13,523.2	13,657.4	13,618.8

Table F4

Revenue by Source[1]
Consolidated Revenue Fund

	Actual 1982/83	Actual 1983/84	Actual 1984/85	Revised Forecast 1985/86	Estimate 1986/87	Annual Rate of Growth 1982/83 to 1986/87
	($ millions)					(per cent)
Taxation Revenue:						
Personal income	2,008.2	1,818.8	1,853.3	2,073.0	2,351.0	4.0
Corporation income	188.5	309.5	366.2	316.0	406.0	21.1
Social service	999.5	1,201.3	1,331.5	1,467.0	1,623.0	12.9
Fuel	389.0	421.1	468.3	437.0	436.0	2.9
Tobacco	109.1	138.4	159.3	186.0	206.0	17.2
Corporation capital	83.8	85.8	87.0	96.0	60.0	(8.0)
Property	40.7	36.8	41.0	39.0	38.0	(1.7)
Insurance premium	21.1	20.9	22.1	24.0	30.0	9.2
Hotel room	22.6	23.2	25.1	27.0	31.0	8.2
Horse racing	7.2	7.7	6.8	7.0	7.0	(0.7)
Total, taxation revenue	3,869.7	4,063.5	4,360.6	4,672.0	5,188.0	7.6
Natural Resource Revenue:						
Petroleum and natural gas:						
B.C. Petroleum Corporation and natural gas royalties	96.0	166.2	140.0	62.0	69.0	(7.9)
Permits and fees	49.3	70.4	97.8	137.0	100.0	19.3
Petroleum royalties	83.5	96.7	100.1	86.0	73.0	(3.3)
Minerals	32.5	31.6	54.2	60.0	67.0	19.8
	261.3	364.9	392.1	345.0	309.0	4.3
Forests:						
Logging tax	2.1	1.0	4.3	5.5	6.0	30.0
Timber sales	64.7	103.8	97.4	84.5	94.0	9.8
Other forests revenue	16.1	26.1	25.6	40.0	40.0	25.5
	82.9	130.9	127.3	130.0	140.0	14.0
Water resources	187.4	172.0	190.8	207.0	220.0	4.1
Wildlife Act	10.9	10.9	10.7	11.0	12.0	2.4
Total, natural resource revenue	542.5	678.7	720.9	693.0	681.0	5.8
Other Revenue:						
Sales and services	150.4	183.6	201.6	202.0	240.0	12.4
Motor-vehicle licences and permits	102.1	39.8	124.2	128.0	136.0	7.4
Other licences and permits	44.0	43.7	46.4	52.0	55.0	5.7
Fines and penalties	15.3	16.4	16.2	16.0	17.0	2.7
Interest from investments	91.3	77.1	106.3	84.0	76.0	(4.5)
Miscellaneous	90.3	63.0	60.6	50.0	53.0	(12.5)
Total, other revenue	493.4	423.6	555.3	532.0	577.0	4.0

[1] Certain comparative figures for prior years have been reclassified to conform with the 1986/87 presentation.

Table F4

Revenue by Source
Consolidated Revenue Fund — *Continued*

	Actual 1982/83	Actual 1983/84	Actual 1984/85	Revised Forecast 1985/86	Estimate 1986/87	Annual Rate of Growth 1982/83 to 1986/87
			($ millions)			(per cent)
Contributions from Government Enterprises:						
Liquor Distribution Branch	337.9	351.5	355.9	393.3	420.0	5.6
Other	—	—	4.4	8.7	10.0	—
Total, contributions from government enterprises	337.9	351.5	360.3	402.0	430.0	6.2
Contributions from Federal Government:						
Established Programs Financing	652.4	928.5	1,059.5	1,090.0	1,134.0	14.8
Canada Assistance Plan	460.0	543.7	572.9	604.0	612.0	7.4
Fiscal Stabilization Program	—	139.0	35.0	—	—	—
Other	103.2	161.5	123.6	122.0	146.0	9.1
Total, contributions from federal government	1,215.6	1,772.7	1,791.0	1,816.0	1,892.0	11.7
Non-Recurring Revenue	70.0	54.3	1.8	60.0	—	—
TOTAL REVENUE	6,529.1	7,344.3	7,789.9	8,175.0	8,768.0	7.6

Table F5

Expenditure by Function
Consolidated Revenue Fund

	Actual 1982/83	Actual 1983/84	Actual 1984/85	Revised Forecast 1985/86	Estimate 1986/87	Annual Rate of Growth 1982/83 to 1986/87
	($ millions)					(per cent)
Health	2,270.3	2,525.3[1]	2,506.7	2,575.5	2,679.7	4.2
Social Services	1,195.0	1,416.3	1,484.5	1,581.1	1,604.4	7.6
Education	1,679.0	1,757.0	1,728.7	1,741.0	1,910.8	3.3
Transportation and communications	623.6	831.7	765.8	1,107.3	964.4	11.5
Natural resources, trade and industrial development	555.1	542.4	528.5	632.3	701.4	6.0
Protection of persons and property	395.5	414.2	411.2	420.2	437.5	2.6
Aid to local government	308.2	308.9	286.6	298.6	396.7	6.5
Debt servicing	28.3	112.6	274.6	337.5	457.9	100.6
General government	160.1	154.1	169.7	140.5	141.5	(3.0)
Housing	122.1	80.6	55.2	76.6	94.4	(6.2)
Recreational and cultural services	63.2	63.5	58.9	66.6	77.9	5.4
Other[2]	112.9	149.8	513.4	145.8	176.4	11.8
TOTAL EXPENDITURE	7,513.3	8,356.4	8,783.8	9,123.0	9,643.0	6.4

[1] Includes a one time adjustment of $130.1 million for provincial contributions to the Medical Services Plan to reflect the change from a cash to an accrual basis of accounting.

[2] Includes a $430 million payment to the British Columbia Railway Company during 1984/85 to provide for the retirement of the historic debt of the Railway.

Table F6

Direct Debt Outstanding at December 31, 1985[1]

Maturity	Date of Issue	Rate	Series	Amount Outstanding
DEBT ISSUED FOR GOVERNMENT PURPOSES		(per cent)		($ millions)
Short-Term Debt				
Treasury Bills				
January to March 1986	October to December 1985	9.27 to 11.43		780.0[2]
Province Short-Term Programs[3]				
Canadian Market				
January 1986	December 1985	9.25		32.0
Total Short-Term Debt				812.0
Long-Term Debt				
May 1, 1988	May 1, 1978	9.125	BD[4]	78.7
March 31, 1988	March 31, 1983	11.375	PRA	26.1
August 23, 1988	August 23, 1983	11.50	PRB	100.0
October 20, 1993	October 20, 1983	12.00	PRC	150.0
December 9, 1993	December 9, 1983	12.00	BCEC-1	125.0
April 26, 1989	April 26, 1984	5.00	BCSF-1	212.3[5]
March 1, 1985 to February 28, 2005	June 15, 1984	4.875 to 16.875	P-BCR	721.5[6]
July 6, 1991	July 6, 1984	13.50	BCEC-2	68.0
November 29, 1991	November 29, 1984	12.25	BCEC-3	100.0
June 2, 1989 to November 1, 1991	March 29, 1985	6.79 to 8.33	Y5 to BJ	80.6[7]
April 15, 1990	April 15, 1985	12.00	BCEC-4	125.0
April 23, 1992	April 23, 1985	11.41	BCJY-2[8]	40.2
May 30, 1988	June 4, 1985	10.50	PRG	50.0
June 20, 1995	June 20, 1985	11.0	PRH	225.0
October 26, 1992	October 25, 1985	10.517	BCJY-3	28.6
December 10, 1990	December 10, 1985	9.75	PRK	238.0
Total Long-Term Debt				2,369.0
Total for Government Purposes				3,181.0

[1] Excludes accrued interest.
[2] Reported at face value.
[3] Reported at maturity value in Canadian dollars.
[4] The bonds are repayable in four annual installments due May 1 of each year to 1988. The province has the option to redeem the bonds on any date prior to maturity, in whole or in part.
[5] Converted at U.S. $1 = C $1.3975.
[6] Represents par value of bonds issued to the British Columbia Railway Company sinking fund. Proceeds of the issue totalled $549 million with the discount reflecting the difference between coupon rates and market rates at the time of issue.
[7] Represents par value of bonds issued to the British Columbia School Districts Capital Financing Authority and the British Columbia Regional Hospital Districts Financing Authority. Proceeds totalled $68 million.
[8] Serial loans with partial repayment in semi-annual installments from April 23, 1989 and final payment on April 23, 1992.
[9] Serial loans with partial repayment in semi-annual installments from July 31, 1989 and final payment on July 30, 1994.

Table F6

Direct Debt Outstanding at December 31, 1985[1] — *Continued*

Maturity	Date of Issue	Rate	Series	Amount Outstanding
DEBT ISSUED ON BEHALF OF CROWN CORPORATIONS		(per cent)		($ millions)
Province Short-Term Programs[3]				
Canadian Market				
January to October 1986	March to December 1985	8.49 to 12.25		652.8
United States Market				
January to July 1986	May to December 1985	8.65 to 10.24		138.7[5]
Total Short-Term Debt				791.5
Long-Term Debt				
November 10, 2003	November 10, 1983	11.65	BCCP-1	10.0
December 1, 1998	December 1, 1983	11.125	BCJC-1	50.0
January 15, 2009	January 15, 1984	8.75	BCJC-2	25.0
January 31, 1996	January 31, 1984	12.25	BCJC-3	24.0
April 2, 2004	April 2, 1984	12.60	BCCP-2	32.1
May 10, 2004	May 10, 1984	13.48	BCCP-3	59.3
June 8, 2004	June 8, 1984	13.70	BCCP-4	52.9
June 20, 1989	June 20, 1984	Floating	FRN-1	20.0
July 6, 1991	July 6, 1984	13.50	BCEC-2	32.0
July 10, 2004	July 10, 1984	13.80	BCCP-5	29.4
July 30, 1994	July 30, 1984	13.65	BCJY-19	54.8
August 7, 2004	August 7, 1984	14.06	BCCP-6	24.7
September 10, 2004	September 10, 1984	13.20	BCCP-7	17.0
October 1, 1989	October 1, 1984	12.75	PRE	100.0
November 7, 2004	November 7, 1984	12.96	BCCP-8	16.9
February 6, 1990	February 6, 1985	10.75	PRF	200.0
April 10, 2005	April 10, 1985	12.75	BCCP-9	36.8
May 10, 2005	May 10, 1985	12.15	BCCP-10	50.6
May 30, 1988	June 4, 1985	10.50	PRG	50.0
June 20, 1995	June 20, 1985	11.00	PRH	25.0
July 10, 2005	July 10, 1985	10.86	BCCP-11	37.7
August 9, 1990	August 9, 1985	10.99	BCCP-12	24.5
December 10, 1990	December 10, 1985	9.75	PRK	12.0
Total Long-Term Debt				984.7
Total on Behalf of Crown Corporations				1,776.2
Total Direct Debt				4,957.2

[1] Excludes accrued interest.
[2] Reported at face value.
[3] Reported at maturity value in Canadian dollars.
[4] The bonds are repayable in four annual installments due May 1 of each year to 1988. The province has the option to redeem the bonds on any date prior to maturity, in whole or in part.
[5] Converted at U.S. $1 = C $1.3975.
[6] Represents par value of bonds issued to the British Columbia Railway Company sinking fund. Proceeds of the issue totalled $549 million with the discount reflecting the difference between coupon rates and market rates at the time of issue.
[7] Represents par value of bonds issued to the British Columbia School Districts Capital Financing Authority and the British Columbia Regional Hospital Districts Financing Authority. Proceeds totalled $68 million.
[8] Serial loans with partial repayment in semi-annual installments from April 23, 1989 and final payment on April 23, 1992.
[9] Serial loans with partial repayment in semi-annual installments from July 31, 1989 and final payment on July 30, 1994.

Table F7

Direct and Guaranteed Debt, 1971 to 1985[1]

At March 31,	Gross Direct and Guaranteed Debt	Sinking Funds	Net Direct and Guaranteed Debt	Debt as Percentage of Gross Domestic Product[2]
	($ millions)			(per cent)
1971	2,776.9	271.9	2,505.0	27.4
1972	3,045.9	305.4	2,740.5	26.6
1973	3,295.7	345.5	2,950.2	25.0
1974	3,647.1	391.8	3,255.3	22.1
1975	4,249.8	447.3	3,802.5	22.0
1976	5,082.8	514.4	4,568.4	23.9
1977	6,285.3	539.5	5,745.8	25.2
1978	7,175.1	625.5	6,549.6	25.8
1979	7,831.6	759.0	7,072.6	25.1
1980[3]	8,979.4	926.6	8,052.8	24.5
1981[3]	9,531.2	1,034.7	8,496.5	22.7
1982[3]	11,327.2	1,200.8	10,126.4	23.4
1983[3]	13,599.9	1,290.0	12,309.9	27.7
1984[3]	16,253.4	1,664.4	14,589.0	30.9
1985[3]	18,592.3	2,593.2	15,999.1	32.0

[1] As reported in the Public Accounts.

[2] Gross domestic product for previous calendar year.

[3] Debt figures shown for 1980 to 1985 are net of amounts held as investments by the General and Special Purpose Funds. For the years 1980 to 1985, accrued interest on the guaranteed debt is included and U.S. dollar debt is translated at the prevailing rate of exchange on March 31. For other years, U.S. dollar debt is translated at the rate of U.S. $1 = Cdn. $1, except for British Columbia Hydro and Power Authority debt which, for 1978 and 1979, was translated at the exchange rate prevailing on the date the debt was incurred.

Table F8

Debt Guaranteed by the Provincial Government at December 31, 1985[1]

	Gross Debt Outstanding	Less Sinking Funds	Net Debt Outstanding
	($ millions)		
Commercial:			
Hydro and Power Authority Act	9,096.4	988.8	8,107.6
Petroleum Corporation Act	30.0	—	30.0
British Columbia Place Act			
Debentures	30.0	1.4	28.6
British Columbia Railway Finance Act			
Capital Leases	25.5	—	25.5
1st preferred shares — BC Rail Ltd.	200.0	—	200.0
Economic Development:			
Agricultural Credit Act	5.4	—	5.4
Development Corporation Act			
Debentures	81.3[2]	—	81.3
Notes	94.0	—	94.0
British Columbia Transit Act			
Debentures	57.0	3.3	53.7
Notes	7.5	—	7.5
Capital Leases	192.3	—	192.3
Farm Product Industry Act	0.4	—	0.4
Ferry Corporation Act			
Debentures	43.3	0.7	42.6
Capital Leases	48.8	—	48.8
Financial Administration Act., Sec. 56 — *Re:* W.L.C. Developments Ltd.			
Debentures	18.5	—	18.5
Notes	2.6	—	2.6
Housing and Employment Development Financing Act			
Bonds and Debentures	162.8	—	162.8
Ministry of Transportation and Highways Act — Re: British Columbia Steamship Company (1975) Ltd.	4.8	—	4.8
Social and Government Services:			
British Columbia Buildings Corporation Act			
Debentures	510.0	36.3	473.7
Educational Institution Capital Finance Act	414.0	46.5	367.5
Hospital District Finance Act	944.3	264.1	680.2
Municipal Act, Part 25 (some serials)	21.1	7.1	14.0
Municipalities Assistance Act	2.3	—	2.3
School District Capital Finance Act	1,296.8	410.9	885.9
System Act			
Debentures	52.1	2.5	49.6
Total	13,341.2	1,761.6	11,579.6
Less: Held by the General and Special Funds	74.5	9.5	65.0
TOTAL GUARANTEED DEBT	13,266.7	1,752.1	11,514.6

[1] Unconditionally guaranteed as to principal, premium if any, and accrued interest by the province. Debt payable in United States funds of $3.7 billion is included, recorded in Canadian dollars at the December 31, 1985 rate of exchange. Accrued interest is not included. Some of the amounts shown are preliminary. Guaranteed debt does not include direct debt which has been incurred by the government and reloaned to Crown corporations.

[2] Excludes $162.8 million borrowed from the Housing and Employment Development Financing Authority.

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1986 BUDGET HIGHLIGHTS

Finance Minister Hugh Curtis presented British Columbia's 1986 budget to the Legislature on Thursday, March 20, 1986.

The Highlights are:

- Continuation of the economic renewal program introduced in last year's budget. Tax reductions, including the second-year effect of measures introduced in 1985, and expenditure initiatives amount to approximately $500 million.
- Deficit of $875 million estimated for 1986/87, down $73 million from the revised deficit of $948 million for 1985/86.
- Expenditure of $9.643 billion, up 5.7 per cent from 1985/86 revised forecast.
- Revenue of $8.768 billion, up 7.3 per cent from 1985/86 revised forecast.
- New multi-year funds meet education and training needs and enhance health care services.
  - — Fund for Excellence in Education will receive $600 million over the next three years, with $110 million provided in 1986/87.
  - — Health Improvement Fund will receive $720 million over the next three years, with $120 million provided in 1986/87.
- Major new initiatives for forest renewal increase base budget for Ministry of Forests by more than 21 per cent.
- New Forest Stand Management Fund established with provincial funding of $20 million to create jobs in silviculture, weeding and thinning; other governments, industry and unions asked to contribute further $50 million.
- Budgets for Ministries of Education and Post-Secondary Education increased by combined $151.7 million, or 8.6 per cent.
- New $10 million allocation for Assisted Job Access program to assist entry and re-entry into labour market.
- Funding for student employment up 50 per cent to $15 million, including $10 million provided for Challenge 86 work experience program.
- Municipal revenue-sharing increased by 9 per cent.
- No tax increases in the budget.

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1986 BUDGET HIGHLIGHTS — *Continued*

- Tax measures:
  - — Reduction in corporation income tax rate to 14 per cent from 16 per cent over two years, to make British Columbia more competitive for job-creating investment.
  - — Elimination of insurance premiums tax for insurance companies with head offices in British Columbia.
  - — Small Business Venture Capital program broadened to include export-oriented service corporations as eligible investments.
  - — Property tax structure for private forest land changed to provide incentive for better forest management.
  - — Motor fuel tax rates "capped" at January 1, 1986 level. Tax will decline with oil prices in 1986/87.
  - — Fuel tax rebate program for handicapped broadened and supplementary home owner grant for handicapped widened.
  - — Industrial property tax assessment to be simplified.

Province of British Columbia

NEWS RELEASE

MINISTRY OF FINANCE
Honourable Hugh Curtis

March 20, 1986

1986 BRITISH COLUMBIA BUDGET

VICTORIA: A budget that accelerates economic renewal, enhances essential social services and reduces the deficit without increasing taxes, was introduced today by Finance Minister Hugh Curtis.

It provides major additional funding for health, education and forestry and adds new measures to the Province's three-year program of tax reductions and investment incentives launched in March, 1985.

The Finance Minister announced a new silviculture initiative -- the Forest Stand Management Fund -- to create jobs now and in the future, and three-year spending of a minimum of $600 million under the Fund for Excellence in Education and $720 million under a new Health Improvement Fund.

The Minister said if the economy expands faster than forecast, the funding for the education and health initiatives could be increased.

Curtis said the budget was developed with five goals in mind. They are to:

* Continue the economic renewal program begun last year to strengthen the Province's economic base, preserve and create jobs, and make the Province more competitive.

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* Maintain essential social programs.

* Provide new programs to meet education and training needs and improve health care.

* Maintain the low tax burden, including the second-lowest personal income taxes in Canada.

* Continue reducing the deficit to limit annual debt service charges.

"This budget meets those goals," the Minister said.

"At a time when other governments in Canada are forced to retrench by cutting programs and increasing taxes, our vital programs are secure and our taxes are being reduced."

"This would not have been possible without the solid fiscal foundation we began building four years ago."

Curtis said through decisive action, the government has put in place a long-range strategy that will allow British Columbia to move forward with confidence.

The Minister noted that, in 1985, the provincial economy experienced its best year since 1981.

Key indicators such as retail sales, personal income, housing starts and others, all increased.

"Employment is also on a steady uptrend," Curtis said.

"Last year there was an increase of 26,000 jobs, equal to a growth of 2.2 per cent in employment. Job creation continued into 1986 and in February there were 50,000 more people at work in the Province than one year earlier, an increase of more than four per cent.

"Despite this good news, we are not satisfied. Creating more jobs remains our number one priority, but there are no shortcuts, either through handouts or make-work programs."

Curtis said the budget contains no provision for salary increases for employees of government or public bodies funded by government, except for increases already granted.

"To the extent that additional funds are available, they are being used to promote job creation and the provision of services for British Columbians, not to increase the salaries of those already working," he said.

In addition to the major new funding for health, education and forestry, the budget maintains basic funding levels for most programs and forecasts total 1986/87 expenditures of $9.643 billion, an increase of 5.7 per cent over the revised forecast for 1985/86.

The budget forecasts revenue for 1986/87 of $8.768 billion, an increase of 7.3 per cent over the revised forecast for 1985/86.

And the Finance Minister noted that the deficit is again forecast to decline in 1986/87 to $875 million.

"This will be the third consecutive reduction," Curtis said.

"That lower deficit has been achieved while, at the same time, accommodating continuing tax reductions and new spending initiatives amounting to approximately $500 million in 1986/87."

Curtis said with $110 million from the fund for Excellence in Education earmarked for spending in 1986/87, the total budgets for the Ministries of Education and Post-Secondary Education are up $151.7 million or 8.6 per cent.

Spending in 1986/87 from the Health Improvement Fund will total $120 million, the Minister said, noting that the Ministry of Health will continue to receive the largest allocation of any Ministry, with a total of $2.755 billion, or almost 29 per cent of the provincial budget.

"With this additional multi-year funding, we hope to be able to support such priorities as organ transplants, new drugs, advanced cancer treatment and AIDS therapy, as well as new hospital beds," Curtis said.

"To emphasize: our preference is to increase service levels rather than the incomes of those providing services."

The Minister also outlined a number of economic development initiatives and tax reductions aimed at strengthening the province's vital resource industries and diversifying the economy.

Funding allocated to the Ministry of Forests increases by $57.8 million -- up 21.5 per cent -- and a major silviculture initiative that could total $70 million was announced.

The government will invest $20 million in a new Forest Stand Management Fund and seek matching contributions from both industry and the federal government, and $5 million each from municipalities and forest sector trade unions.

The increased budget for the Ministry of Forests will fund its five-year forest and range resource program and allow it to meet its objective under a five-year federal-provincial agreement to plant 200 million seedlings a year by 1987/88.

The Minister said the second year of tax reductions introduced in the last budget will further provide economic stimulus and make more secure the jobs of those working in British Columbia.

The tax reduction program will be worth almost a billion dollars over three years.

"In this, the second year of the program, taxes on business in the Province will decline by more than $350 million from the level that would have prevailed without tax reform," Curtis said.

The continuing tax relief measures include tax credits to the small business sector, a phase-out of property tax on machinery and equipment, a reduction in industrial and commercial school property taxes, a reduction in fuel tax rates, the phase-out of the Corporation Capital Tax, a tax credit to investors in Venture Capital Corporations and a five-year freeze on water rental fees.

Curtis said the program has played a key part in stimulating economic activity, making the jobs of those working more secure and encouraging growth and job-creation.

The new budget, he said, contains additional tax reductions and changes to build on this momentum.

The first measure, Curtis said, will see the Corporation Income Tax cut from 16 per cent to 15 per cent effective January 1, 1987, and to 14 per cent effective January 1, 1988.

The change will provide tax relief of $2 million in 1986/87, $32 million in 1987/88 and $64 million in 1988/89 to some 2,000 medium and large businesses throughout British Columbia.

"Personal income taxes are already the second lowest in Canada and the provincial tax rate for small businesses is lower in only two other provinces," the Minister said, adding that small business will also receive tax reductions totalling $150 million over two years through the small business employment tax credit.

"The major fixed taxes on businesses were reduced in the 1985 budget. With this change, British Columbia's corporation income tax rate will be lower than the rate in six other provinces.

"Thanks to our actions, the total tax burden on businesses in British Columbia will compare very favourably with that in all other provinces."

A second change will modify the property taxation of private forest land to provide an incentive for better forest management.

A third change will simplify assessment and property taxation of individual and utility property to increase the stability of the local government tax base and reduce administrative costs of taxpayers and the government.

Fourth, the Small Business Venture Capital Program will be broadened to include export-oriented service corporations as eligible investments of venture capital corporations.

Fifth, effective January 1, 1987, the Insurance Premium Tax will be eliminated on insurance sold by companies with head offices in British Columbia.

"This measure is part of our broader effort to bolster the financial sector," Curtis explained.

The change will reduce taxes paid by insurance firms by $700,000 in 1986/87 and $4 million in a full year.

The Minister said that, in addition to this measure and other measures implemented in the past year, further initiatives will be considered to promote the financial services sector in British Columbia.

Curtis also announced that all fuel tax rates are being "capped" for a fifteen month period at the January 1, 1986 level.

This will avert a scheduled tax increase on April 1, 1986. However, any decreases generated by the indexing formula will be implemented.

Tax changes to help the handicapped were also announced.

Effective the 1986 property taxation year, home owners with resident handicapped relatives may claim the additional home owner grant now available to handicapped home owners.

In addition, effective midnight budget day, the eligibility criteria for the fuel tax rebate program for the handicapped will cover all handicapped individuals with a doctor's certificate certifying their impairment would make use of public transportation hazardous.

The Minister said the budget marks another crucial step in the government's long-term plan for economic renewal.

"I know that other governments are looking with envy at what we have accomplished. We have done what they have yet to do, controlling the cost of government and preparing ourselves for the competitive race ahead," Curtis said.

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